

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 52539 / September 30, 2005**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 2327 / September 30, 2005**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12066**

**In the Matter of**

**Ronald Lee Hoyt, CPA,**

**Respondent.**

**ORDER INSTITUTING PUBLIC  
ADMINISTRATIVE AND CEASE-  
AND-DESIST PROCEEDINGS  
PURSUANT TO SECTION 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 Rule 102(e)(1) of the Commission’s Rules of Practice<sup>1</sup> and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Ronald Lee Hoyt, CPA (“Hoyt”).

**II.**

In anticipation of the institution of these proceedings, Hoyt has submitted an Offer of Settlement (“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

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<sup>1</sup> Rule 102(e)(1)(ii) 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 engaged in...improper professional conduct.

admitted, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Section 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 ("Order"), as set forth below.

### III.

On the basis of this Order and the Respondent's Offer, the Commission finds that:<sup>2</sup>

#### A. RESPONDENT

**Ronald Lee Hoyt**, age 46, began his employment at Lattice Semiconductor Corp. ("Lattice") in 1990. He became Lattice's Controller on April 5, 1999, and assumed the additional title of Director of Finance on July 30, 2000. Although Hoyt continued to hold the title of Controller and Director of Finance until March 19, 2004, Lattice suspended his responsibility for the general ledger on January 20, 2004. During his tenure as Controller and Director of Finance, he also held officer positions for two of Lattice's wholly-owned foreign subsidiaries: statutory auditor for Lattice KK (Japan) and secretary for Lattice Semiconductor UK Ltd. (United Kingdom). Hoyt supervised approximately 16 people in Lattice's accounting department. He worked as a consultant for Lattice from March 22, 2004 to July 14, 2004. Hoyt is, and at all relevant times was, licensed in Oregon as a Certified Public Accountant. Before joining Lattice, Hoyt worked for six years as a senior auditor at a large public accounting firm.

#### B. RELATED ENTITY

**Lattice Semiconductor Corp.**, a Delaware corporation headquartered in Hillsboro, Oregon, designs, manufactures, and sells semiconductor products. Lattice's stock is registered under Section 12(g) of the Exchange Act and trades on the Nasdaq National Market.

#### C. SUMMARY

1. Hoyt was primarily responsible for Lattice's material overstatement of revenue and understatement of deferred income and net loss in its Forms 10-Q for the second and third quarters of 2003. Hoyt contributed to Lattice's inaccurate reporting for the second and third quarters of 2003 by making unsupported journal entries totaling \$5.5 million to offset apparent understated balances in Lattice's deferred revenue account. Hoyt failed to tell anyone at Lattice about the material discrepancies in the deferred revenue account or his unsupported journal entries. He also misrepresented to Lattice's auditor that there were no unusual or non-recurring journal entries.

2. In mid-January 2004, Hoyt reported his actions to Lattice's Vice President of Finance. Lattice began an internal investigation. Upon completion of its internal

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<sup>2</sup> 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.

investigation in April 2004, Lattice acknowledged that it had internal controls weaknesses, including a failure to have a sufficient check on Hoyt's ability to make entries to the general ledger, had prematurely recognized revenue, and had restated its financial statements for the first three quarters of 2003.<sup>3</sup> As a result of the restatements, Lattice's previously reported revenue for the first nine months of 2003 decreased by \$10.6 million (an approximate 6% decrease) and its previously reported loss for the period increased by \$8.9 million (an approximate 15% increase).

#### **D. FACTS**

##### **1. Lattice's Business and Deferred Revenue Accounting**

Lattice manufactures semiconductor products and sells them to end users directly and through distributors. Sales to distributors account for nearly half of Lattice's revenue. Lattice delays revenue recognition on sales to distributors until the distributors report product resale to Lattice. Lattice uses deferred income accounting to reflect the anticipated revenue and corresponding costs for its products shipped to distributors but not yet sold to end users. For example, when Lattice ships a product to a distributor, it records in its general ledger the product's list price as deferred revenue and the cost as deferred cost. Deferred income is the balance sheet account that reflects deferred revenue less deferred cost.

##### **2. Hoyt's Cross-Check of the Deferred Revenue Account in the General Ledger**

At the close of each quarter, Hoyt performed an account reconciliation to cross-check the accuracy of Lattice's estimate of deferred revenue as reflected in the general ledger. This test was based on the carrying value of the Lattice inventory sitting on distributors' shelves and provided an estimate of the minimum deferred revenue balance required to reflect sales of this inventory. Lattice's accounting policies provided that if there was no material discrepancy between the estimate of deferred revenue and the amount of deferred revenue reflected in Lattice's general ledger, Hoyt could conclude that the general ledger was accurate and close the books for the quarter.

##### **3. The Discrepancies and Unsupported Journal Entries**

###### **(a) The Second Quarter Discrepancy of \$1.3 Million and Hoyt's Unsupported Journal Entries to Reconcile the Discrepancy**

In July 2003, while preparing Lattice's financial statements for the second quarter, Hoyt performed his usual reconciliation of the deferred revenue account. The reconciliation showed that the estimate of deferred revenue was \$1.3 million higher than the deferred revenue balance on the general ledger, indicating an understatement of Lattice's deferred revenue account. He recalculated the reconciliation but found no mechanical error. He then considered possible reasons

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<sup>3</sup> Although Lattice restated its financial statements for the first quarter of 2003, that first quarter restatement is not a part of this Order.

for the discrepancy and theorized, incorrectly, that there were two sources of future (deferred) revenue that should have been accounted for in the general ledger. To account for these “previously unidentified” sources of deferred revenue, Hoyt wrote and caused the entry of two unsupported journal entries totaling \$1.3 million to offset the imbalance between the general ledger and the deferred revenue estimate. Hoyt made these journal entries without telling anyone at Lattice, and without investigating further to determine whether these suspected sources of deferred revenue actually caused the discrepancy, and if so, in what amounts. After making the unsupported journal entries, Hoyt closed the books for the second quarter.

Hoyt failed to realize that the company’s method of calculating revenue from sales to distributors had become inaccurate. This in turn caused Lattice to recognize revenue prematurely and overstate its reported revenue and understate its reported deferred revenue. Instead of creating journal entries that decreased revenue and increased deferred revenue, Hoyt created the unsupported journal entries that inappropriately allowed Lattice to recognize revenue prematurely.

(b) **The Third Quarter Discrepancy of \$5.5 Million and Hoyt’s Unsupported Journal Entries to Reconcile the Discrepancy**

At the end of the third quarter, Hoyt again performed his customary reconciliation to cross-check the amount of deferred revenue recorded in the general ledger. This time, the discrepancy was \$5.5 million. Hoyt theorized that the reasons for the imbalance were the same as in the previous quarter. Based on his erroneous theory, Hoyt wrote and caused the entry of several unsupported journal entries, totaling \$5.5 million (inclusive of the \$1.3 million of unsupported journal entries from the second quarter), to offset the imbalance and close the books for the quarter. These journal entries increased deferred revenue and decreased unrelated accounts including accrued engineering cost and subsidiary accrued payroll. Hoyt spread out the journal entries in this manner to avoid taking the accrued liabilities accounts below zero. Had any of the liability accounts fallen below zero, the negative balance may have signaled a problem to the auditor.

Hoyt’s use of unsupported journal entries in the second and third quarters of 2003 contributed to recognition of revenue contrary to Generally Accepted Accounting Principles (GAAP). Statement of Financial Accounting Concepts No. 5, “Recognition and Measurement in Financial Statements of Business Enterprises” (CON 5), provides that “revenues are considered to be earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenue.” CON 5 Para. 83. Hoyt knew there was a shortfall in deferred revenue that he could not explain. Rather than bringing the issue to his superiors or the auditor (which was on-site at Lattice to review quarterly financial records), Hoyt told no one, concealed the imbalance, and prepared unsupported journal entries that contributed to Lattice’s overstatement of revenue and understatement of net loss.

**4. Hoyt's Representations to Lattice's Auditor That There Had Been No Unusual or Nonrecurring Journal Entries**

Hoyt had significant responsibility for the preparation of quarterly reports, including meeting with its outside auditor, completing disclosure checklists and management representation letters, and supplying some of the content for the quarterly reports. At the end of the second and third quarters, in connection with the auditor's quarterly review of Lattice's financial statements, Hoyt and Lattice's Vice President of Finance met with the auditor and discussed whether there had been any unusual transactions. Hoyt represented that there had been no unusual transactions. Separately the auditor asked Hoyt whether there had been any unusual or non-recurring journal entries and Hoyt falsely represented that there had not.

Each quarter, Hoyt completed a detailed checklist provided to the auditor to ensure that Lattice's finance department considered all required disclosures. Hoyt falsely represented in these checklists for the second and third quarters of 2003, which he submitted to the auditor, that there were no unusual or nonrecurring journal entries.

For the second and third quarters of 2003, Hoyt signed management representation letters that falsely represented to the auditor that Lattice's financial statements contained no unusual or nonrecurring journal entries. Hoyt understood that Lattice's auditor would rely on these representations in its review of Lattice's financial statements for the Forms 10-Q.

Finally, Hoyt drafted the first footnote to the financial statements in Lattice's Forms 10-Q for the second and third quarters of 2003, which falsely stated that the financial statements ". . . include all adjustments, consisting only of *normal recurring adjustments*," (emphasis added) necessary for the fair statement of results for the interim period.

**5. Hoyt's Disclosure of the Unsupported Journal Entries**

On January 12, 2004, Hoyt disclosed to the Vice President of Finance the second and third quarter general ledger imbalances of \$1.3 million and \$5.5 million, respectively. He also explained his theories for the causes of the imbalances and provided the unsupported journal entries used to "correct" the imbalances.

When Lattice learned of Hoyt's incorrect actions, it relieved Hoyt of responsibility for journal entries and the general ledger and began an internal investigation. As a result of the investigation, Lattice changed the method of estimating deferred revenue and restated all three 2003 Forms 10-Q on April 19, 2004, reducing previously reported revenue by \$10.6 million (an approximate 6% decrease) and increasing previously reported net loss by \$8.9 million (an approximate 15% increase).

## **E. VIOLATIONS**

### **1. Reporting Violations: Section 13(a) of the Exchange Act and Rule 13a-13 Thereunder**

Section 13(a) of the Exchange Act and Rule 13a-13 thereunder require issuers with securities registered under Section 12 of the Exchange Act to file quarterly reports with the Commission and to keep this information current. The obligation to file such reports embodies the requirement that they be true and correct. See, e.g., SEC v. Savoy Indus., Inc., 587 F.2d 1149, 1165 (D.C. Cir. 1978).

For the second and third quarters of 2003, Hoyt caused Lattice to file false and misleading quarterly reports with the Commission that misrepresented Lattice's financial condition by overstating revenue and understating net loss. Hoyt caused Lattice's violations of Section 13(a) and Rule 13a-13 thereunder for the second and third quarters when he wrote unsupported journal entries, caused them to be entered in the general ledger, and helped prepare quarterly reports using the inaccurate general ledger balances.

### **2. 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 Section 12 registrants 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).

As a result of Hoyt's incorrect and unsupported accounting entries, Lattice's books and records inaccurately reflected transactions and dispositions of assets for the second and third quarters of 2003. Hoyt therefore caused Lattice to violate Section 13(b)(2)(A) and he violated Rule 13b2-1.

### **3. Internal Controls Provision: 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) prohibits any person from knowingly circumventing a system of internal accounting controls or knowingly failing to implement a system of internal accounting controls.

Hoyt caused Lattice's violation of Section 13(b)(2)(B). As Director of Finance and Controller, Hoyt was responsible for ensuring that all journal entries were accurate and complete, and that he followed and properly used Lattice's system of internal controls. By causing unsupported journal entries to be recorded in Lattice's general ledger, Hoyt failed to assure that Lattice maintained adequate internal controls in violation of Section 13(b)(2)(B). Hoyt violated

Section 13(b)(5) by knowingly creating unsupported journal entries and causing their entry in Lattice's general ledger.

#### **4. False Statements to the Accountants: Exchange Act Rule 13b2-2**

Exchange Act Rule 13b2-2 prohibits an officer or director of an issuer from, among other things, misstating or omitting any material fact to an accountant in connection with the preparation of a report to be filed with the Commission. Exchange Act Rule 3b-2 defines the term "officer" to include "... comptroller or principal accounting officer, and any person routinely performing corresponding functions with respect to any organization whether incorporated or unincorporated."

Hoyt, as Lattice's Director of Finance and Controller, is deemed an "officer" for purposes of Rule 3b-2, and violated Rule 13b2-2 by providing the auditor with oral representations, checklists, and management representation letters that incorrectly stated there were no unusual or nonrecurring journal entries. He also violated Rule 13b2-2 by providing the auditor with financial statements that contained the unsupported journal entries. As a result, Hoyt misled the auditor regarding material components of the second and third quarter 2003 financial statements.

#### **5. Improper Professional Conduct**

Rule 102(e)(1)(ii) of the Commission's Rules of Practice provides, in part, that the Commission may censure or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission to have engaged in improper professional conduct. Rule 102(e)(1)(iv)(B)(2) defines improper professional conduct by licensed accountants as, among other things, "repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission."

As Lattice's Director of Finance, Controller, and as a CPA, Hoyt failed in his responsibilities for Lattice's proper financial reporting. Hoyt engaged in improper professional conduct under Rule 102(e)(1)(iv)(B)(2) when he made unsupported journal entries and caused their entry in the general ledger, repeatedly misstated and omitted material facts to Lattice's auditor, and then concealed his misconduct. Hoyt's actions also violated the Code of Professional Conduct of the American Institute of Certified Public Accountants.

### **F. FINDINGS**

Based on the foregoing, the Commission finds that Hoyt caused Lattice's violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rule 13a-13 thereunder and violated Section 13(b)(5) of the Exchange Act and Rules 13b2-1 and 13b2-2, and that Hoyt engaged in improper professional conduct pursuant to Rule 102(e)(1)(ii) and (iv).

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the cease-and-desist order and sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED, effective immediately, that:

**A.** Hoyt shall cease and desist from 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 Rule 13a-13 thereunder, and from committing or causing any violations and any future violations of Section 13(b)(5) of the Exchange Act and Rules 13b2-1 and 13b2-2 thereunder.

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

**C.** After three years from the date of this Order, Hoyt may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

**1.** a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Hoyt's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

**2.** an independent accountant. Such an application must satisfy the Commission that:

**(a)** Hoyt, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

**(b)** Hoyt, or the registered public accounting firm with which he is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in Hoyt's or the firm's quality control system that would indicate that Hoyt will not receive appropriate supervision;

**(c)** Hoyt has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

**(d)** Hoyt acknowledges his responsibility, as long as he appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews, and quality control standards.



**D.** The Commission will consider an application by Hoyt to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependant on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Hoyt's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Jonathan G. Katz  
Secretary