The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted against Eugene F. Hovanec (“Respondent” or “Hovanec”) pursuant to Rule 102(e)(3)(i) of the Commission’s Rules of Practice.¹

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, and the findings contained in Section III.3 below, which are admitted, ¹

¹ Rule 102(e)(3)(i) provides, in relevant part, that:

The Commission, with due regard to the public interest and without preliminary hearing, may, by order, . . . suspend from appearing or practicing before it any . . . accountant . . . who has been by name . . . permanently enjoined by any court of competent jurisdiction, by reason of his or her misconduct in an action brought by the Commission, from violating or aiding and abetting the violation of any provision of the Federal securities laws or of the rules and regulations thereunder.
Respondent consents to the entry of this Order Instituting Administrative Proceedings Pursuant to 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 Respondent’s Offer, the Commission finds that:

1. Hovanec, age 61, of Westlake Village, California, has been a certified public accountant licensed to practice in the State of New York since 1976; the status of his license is currently not registered. Hovanec served as Vice President of Finance and Chief Financial Officer at Vitesse from December 1993 through April 2005. In April 2005, after being promoted to Executive Vice President he relinquished his role as CFO. Hovanec served as Executive Vice President until May 17, 2006, when he was terminated by Vitesse’s Board. Between 1994 and 2007, Hovanec served on the board of Interlink Electronics, Inc., a U.S. public company.

2. Vitesse Semiconductor Corporation (“Vitesse” or the “Company”) is a major producer of high-performance integrated circuits for use primarily by systems manufacturers in the storage and communications industries. Vitesse was incorporated in Delaware in 1987, is headquartered in Camarillo, California, and maintains a September 30th fiscal year-end. During the relevant period, the Company’s common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the Nasdaq National Market under the symbol VTSS.

3. On December 10, 2010, the Commission filed a complaint against Hovanec in Securities and Exchange Commission v. Vitesse Semiconductor Corp. et al, No. 10 Civ. 9239 in the United States District Court for the Southern District of New York. On August 8, 2014, the court entered an order permanently enjoining Hovanec by consent from future violations of Sections 17(a) of the Securities Act of 1933 (“Securities Act”), Sections 10(b), 13(b)(5), and 16(a) of the Securities Exchange Act of 1934 (“Exchange Act”), and Exchange Act Rules 10b-5, 13a-14, 13b2-1, 13b2-2, and 16a-3, and from aiding and abetting Vitesse’s violations of Section 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, and 13a-13. The final judgment also ordered him to pay disgorgement of $781,280, which was deemed satisfied by his prior payment and transfer of, respectively, $250,000 and 458,014 shares of Vitesse stock, to the class action Settlement Fund in Louis Grasso, et.al. v. Vitesse Semiconductor, et.al., No. CV 06-02639 R (CTx) (C.D. Cal.), and a $50,000 civil penalty.

4. The Commission’s complaint alleged, among other things, that starting from about September 2001 through April 2006, Hovanec participated in a channel stuffing scheme to improperly record revenue on product shipments. In furtherance of this scheme, Hovanec failed to timely record customer credits required by large returns of unwanted product, and he directed the misapplication of cash receipts to obscure aged accounts receivables that resulted from the failure to timely record credits. The complaint also alleged, that from 1995 to 2006, Hovanec participated in a scheme to backdate stock option grant dates for his personal benefit.
and the benefit of other Vitesse executives and employees. Hovanec also failed to ensure that Vitesse properly recorded compensation expense for backdated stock option grants. The complaint alleges that as a result of these actions, between 1996 and early 2006, Hovanec, among other violations: engaged in fraudulent accounting practices that materially misstated the Company’s quarterly and annual financial statements, and that Hovanec knowingly circumvented or failed to implement Vitesse’s system of internal accounting controls and falsified Vitesse’s books, records and accounts; and made material misrepresentations to Vitesse’s independent auditor. The complaint also alleges that as part of his misconduct, between June 1996 and February 2005, Hovanec signed registration statements and annual and quarterly reports that contained false and misleading financial statements and disclosures.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanction agreed to in Respondent Hovanec’s Offer.

Accordingly, it is hereby ORDERED effective immediately, that:

A. Hovanec is suspended from appearing or practicing before the Commission as an accountant.

B. After ten years (or 120 months) from the date of the Order, Respondent 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 Respondent’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) Respondent, 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) Respondent, 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 the respondent’s or the firm’s quality control system that would indicate that the respondent will not receive appropriate supervision;

(c) Respondent 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) Respondent acknowledges his responsibility, as long as Respondent 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.

C. The Commission will consider an application by Respondent 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 dependent 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 Respondent’s character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Brent J. Fields
Secretary