

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

**SECURITIES ACT OF 1933**  
Release No. 8647 / December 22, 2005

**SECURITIES EXCHANGE ACT OF 1934**  
Release No. 53012 / December 22, 2005

**ACCOUNTING AND AUDITING ENFORCEMENT**  
Release No. 2358 / December 22, 2005

**ADMINISTRATIVE PROCEEDING**  
File No. 3-12134

**In the Matter of**

**KENNETH R. LECRONE, CPA,**

**Respondent.**

**ORDER INSTITUTING PUBLIC  
ADMINISTRATIVE AND CEASE-  
AND-DESIST PROCEEDINGS PURSUANT  
TO SECTION 8A OF THE SECURITIES  
ACT OF 1933, 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 proceedings and cease-and-desist proceedings be, and hereby are, instituted against Kenneth R. LeCrone ("LeCrone" or "Respondent"), pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.<sup>1</sup>

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<sup>1</sup> Rule 102(e)(1)(iii) provides, in relevant part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it in any way 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 and the rules or regulations thereunder.

## II.

In anticipation of the institution of these proceedings, Respondent 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 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, 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 (“Order”), as set forth below.

## III.

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

### A. Respondent

LeCrone, age 41, a resident of Centennial, Colorado, was an auditor at Levine, Hughes, and Mithuen, Inc. (“LHM”), a Denver, Colorado accounting firm, where he was employed from 1997 through 1999. LeCrone has been a licensed certified public accountant in Colorado since 1993. LeCrone was responsible for the performance of portions of LHM’s 1998 and 1999 audits of Sport-Haley, Inc. (“Sport-Haley”), serving as the “in-charge” staff accountant in 1998 and a manager in 1999.

### B. Facts

1. Sport-Haley is a Denver, Colorado company that designs, markets, and contracts for the manufacture of golf apparel and outerwear. Sport-Haley’s stock is registered with the Commission pursuant to Section 15(d) of the Exchange Act and is quoted on the NASDAQ National Market System.

#### **Improper Accounting for Work-In-Process (“WIP”) Inventory**

2. Beginning no later than early 1998, Sport-Haley’s computerized inventory system began improperly accumulating WIP inventory. As a result of the improper accrual, Sport-Haley’s WIP inventory balance ballooned to \$1.7 million during its 1998 fiscal year. The 1998 WIP inventory accounted for 9.5 percent of Sport-Haley’s total inventory and had increased by more than 900 percent from the prior year. Despite the fact that the 1998 WIP inventory balance was substantially higher than the expected \$200,000 to \$500,000 balance, Sport-Haley never physically counted the company’s WIP inventory in fiscal 1998 and failed to take any reasonable steps to verify the amount of WIP inventory during the company’s 1998 fiscal year. LeCrone did not perform, or direct others to perform, sufficient audit procedures on Sport-Haley’s WIP

inventory. As a result, LeCrone allowed Sport-Haley to include materially overstated WIP inventory in its 1998 financial statements.

3. During the audit of Sport-Haley's financial statements for the fiscal year ended June 30, 1999, Sport-Haley informed personnel at LH&M that WIP inventory had reached approximately \$2.1 million. LeCrone participated in instituting measures that improperly minimized the impact on the company's gross margin, kept the 1998 financial statements intact, and ratably eliminated the overstatement during the course of the 2000 fiscal year.

4. With LeCrone's participation, Sport-Haley estimated the proper amount of WIP inventory as of June 30, 1999 to be approximately \$370,000, purportedly leaving an overstated balance of approximately \$1.7 million. The company then wrote off approximately \$560,000 of the \$1.7 million to cost of goods sold. Sport-Haley moved the remaining \$1.2 million of the overstated inventory balances to a new inventory account that was to be amortized over the course of the 2000 fiscal year, at approximately \$100,000 monthly. These entries lacked sufficient accounting basis. LeCrone, as an audit manager responsible for the performance of parts of LHM's audit of Sport-Haley's 1999 financial statements, failed to perform sufficient audit procedures to verify how much WIP inventory should be properly recorded in the company's 1999 year-end financial statements. Moreover, LeCrone was reckless in not knowing that the WIP inventory adjustments made by Sport-Haley were not in accordance with generally accepted accounting principles and were misleading.

5. Sport-Haley did not disclose the WIP inventory error or explain the company's measures to adjust the financial statements for the WIP inventory error in its 1999 Form 10-K or Forms 10-Q for the company's first three quarters of its 2000 fiscal year.<sup>2</sup> Even though LeCrone should have known of the overstated WIP inventory account balance at the end of fiscal 1999, LHM issued an audit report containing an unqualified opinion on Sport-Haley's fiscal 1999 financial statements. LeCrone also failed to notify Sport-Haley's audit committee that Sport-Haley's 1999 financial statements and quarterly report for the first quarter of its 2000 fiscal year were materially misstated. As a result of the company's improper accounting for the WIP inventory error, Sport-Haley filed its Form 10-K for the fiscal year ended June 30, 1999, including financial statements that, as a result of the accounting involving the WIP inventory, materially overstated finished goods inventory by over \$1.2 million or 10 percent of total inventory.

### **Improper Accounting for Period Costs**

6. Prior to July 1, 1997, Sport-Haley began materially understating expenses related to product design, tradeshow, logo disks, property taxes and advertising by improperly deferring these costs as prepaid and fixed assets. However, Sport-Haley's capitalization of several prepaid and fixed assets was not in accordance with generally accepted accounting principles. As an in-charge staff accountant for the fiscal 1998 audit and an audit manager for the fiscal 1999 audit, LeCrone was responsible for the audit procedures and reviewing workpapers relating to Sport-

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<sup>2</sup> LeCrone resigned from LHM in November 1999 and had no involvement with Sport-Haley's second or third fiscal quarter Forms 10-Q.

Haley's period costs. However, LHM's audit workpapers contained insufficient accounting basis for Sport-Haley's treatment of period costs, and LeCrone failed adequately to review the fiscal 1999 audit workpapers relating to period costs. Moreover, during the 1999 audit, LeCrone failed to ensure that all work performed by junior personnel regarding many of the period costs was reviewed adequately and complied with generally accepted auditing standards. LeCrone allowed Sport-Haley to improperly capitalize period costs and caused Sport-Haley materially to overstate its income by \$164,000 or four percent of pretax income in its 1998 Form 10-K for the fiscal year ended June 30, 1998, and \$159,000 or 11.5 percent in its 1999 Form 10-K for the fiscal year ended June 30, 1999.

### **Improper Accounting for Discontinued Headwear Operations**

7. In a May 28, 1999 press release, Sport-Haley announced it was discontinuing its headwear product line at the end of its 1999 fiscal year and that the sale of headwear equipment from the discontinued operations would result in an estimated \$160,000 loss. After issuing the May 1999 press release, Sport-Haley revised the estimated loss on disposal of headwear equipment to \$298,000 and recorded the loss in its books. Before the audit fieldwork was completed, the company reversed \$206,000 of the loss without sufficient accounting support.

8. LeCrone, who reviewed audit procedures on Sport-Haley's discontinued headwear operations, failed to perform or direct others to perform sufficient procedures to substantiate the estimated loss on disposal of headwear equipment. Although LeCrone had sufficient information to know Sport-Haley anticipated significantly larger losses, he allowed Sport-Haley to record only \$92,000 loss related to the headwear equipment in its 1999 Form 10-K filed with the Commission. By failing to recognize the estimated loss on disposal of headwear equipment in conformity with generally accepted accounting principles, Sport-Haley understated its 1999 pretax loss on disposal of assets by \$206,000 or 69.1 percent of pretax loss.

### **Post-Audit Supplementation of Work Papers**

9. On November 13, 2000, the Commission staff sent a letter to LHM requesting that it produce documents related to LHM's audits of Sport-Haley. At the time, LHM was in the process of conducting an internal review of the fiscal 1999 Sport-Haley audit workpapers ("November 2000 review"). Although LeCrone had resigned from LHM twelve months previously, he agreed to assist LHM in responding to review comments developed by LHM personnel in connection with the November 2000 review. LeCrone participated in adding explanatory language and analytical information to LHM's workpapers, most of which were dated as of the dates LeCrone made the addition in November 2000, concerning the accounting areas Sport-Haley restated including WIP inventory, discontinued operations, and prepaid expenses.

## C. Violations

10. Section 17(a) of the Securities Act makes it unlawful to employ any device, scheme, or artifice to defraud in the offer or sale of any securities. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit a person, in connection with the purchase or sale of a security, from making an untrue statement of a material fact or from omitting to state a material fact necessary to make statements made, in light of the circumstances under which they were made, not misleading. To establish violations of Section 17(a)(1) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder (“the antifraud provisions”), a defendant must act with scienter, *Aaron v. SEC*, 446 U.S. 680, 695, 701-02 (1980), which the Supreme Court has defined as “a mental state embracing intent to deceive, manipulate, or defraud,” *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 n.12 (1976). Scienter may be established by reckless conduct. *Hackbart v. Holmes*, 675 F.2d 1114, 1117 (10th Cir. 1982); *Anixter v. Home-Stake Production*, 77 F.3d 1215, 1225-1227 (10<sup>th</sup> Cir. 1996) (violation of antifraud provisions to prepare and certify financial statements auditor knows or is reckless in not knowing, are false).

11. As a result of actions taken by LeCrone, as described above, in connection with the audits of Sport-Haley’s financial statements for the 1998 and 1999 fiscal years, LeCrone participated in causing Sport-Haley to file quarterly and annual reports with the Commission that materially misstated and misrepresented Sport-Haley’s financial condition and results of operations. By his conduct described above, LeCrone committed and caused violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

12. Section 15(d) of the Exchange Act and Rules 15d-1 and 15d-13 thereunder require issuers with securities registered under the Securities Act to file quarterly and annual 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), *cert. denied*, 440 U.S. 913 (1979). In addition, Rule 12b-20 requires that reports contain such further material information as may be necessary to make the required statements, in light of the circumstances under which they were made, not misleading. No showing of scienter is required to establish a violation of these provisions. *Savoy Indus.*, 587 F.2d at 1167.

13. As discussed above, in connection with LHM’s audits of Sport-Haley’s financial statements for the 1998 and 1999 fiscal years, Sport-Haley filed, and LeCrone caused Sport-Haley to file, annual and quarterly reports with the Commission that misrepresented the financial results of Sport-Haley, materially misstating income, WIP inventory, period costs, and discontinued headwear operations. By his conduct described above, LeCrone caused Sport-Haley’s violations of Section 15(d) of the Exchange Act and Rules 12b-20, 15d-1 and 15d-13 thereunder.

#### **D. Findings**

Based on the foregoing, the Commission finds that LeCrone willfully violated and caused violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and that he willfully aided and abetted and caused violations of Section 15(d) of the Exchange Act and Rules 12b-20, 15d-1 and 15d-13 promulgated thereunder.

#### **IV.**

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

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

A. LeCrone shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder; and from causing any violations and any future violations of Section 15(d) of the Exchange Act, and Rules 12b-20, 15d-1 and 15d-13 promulgated thereunder.

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

C. After two years from the date of this order, LeCrone 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 LeCrone'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) LeCrone, 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) LeCrone, 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) LeCrone 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) LeCrone 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 LeCrone 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 Respondent's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Jonathan G. Katz  
Secretary