

1 products company located in Fremont, California. Media Vision
2 filed a Chapter 11 proceeding and was reorganized pursuant to a
3 plan confirmed in December 1994. Media Vision changed its name
4 to Aural Semiconductor in May 1996.

5 2. Faust participated in the fraud by directing
6 subordinates to falsify documents so that it would falsely appear
7 that large amounts of product had been shipped before the end of
8 the third and fourth quarters. In fact, the product was not
9 shipped until the following quarter.

10 3. Faust also sold Media Vision stock while in the
11 possession of material non-public (or "inside") information and
12 misrepresented facts to auditors about returned product.

13 4. Faust's conduct violated the antifraud and internal
14 accounting controls provisions of the federal securities laws.

15 JURISDICTION, VENUE AND INTRADISTRICT ASSIGNMENT

16 5. The Commission brings this action pursuant to Section
17 20(b) of the Securities Act of 1933 ("Securities Act") [15 U.S.C.
18 § 77t(b)] and Section 21(d) of the Securities Exchange Act of
19 1934 ("Exchange Act") [15 U.S.C. § 78u(d)].

20 6. This Court has jurisdiction over this action pursuant
21 to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and
22 Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e)
23 and 78aa]. Faust, directly or indirectly, has made use of the
24 means and instrumentalities of interstate commerce or of the
25 mails in connection with the acts, practices and courses of
26 business alleged in this Complaint.

27 7. Venue in this District is proper pursuant to Section 27
28 of the Exchange Act [15 U.S.C. § 78aa]. Defendant resides and

1 transacts business in, and a substantial part of the alleged
2 conduct occurred in, the Northern District of California.

3 8. Assignment to the San Francisco Division is appropriate
4 pursuant to Civil Local Rule 3-2(c) because a substantial part of
5 the events and omissions which give rise to the claims occurred
6 in Alameda County, California.

7 THE DEFENDANT

8 9. Faust is a resident of Pleasanton, California. Faust
9 served as Media Vision's President from the Company's formation
10 in May 1990 until August 1990. Thereafter, Faust was the Chief
11 Operating Officer until May 1994, and he also served as Chief
12 Financial Officer until May 1992. Throughout his employment at
13 Media Vision, Faust was a member of the Board of Directors of
14 Media Vision.

15 FACTUAL BACKGROUND

16 Media Vision Fraudulently Overstated
17 1993 Third Quarter Results.

18 10. Media Vision, formerly a publicly traded Delaware
19 corporation with its principal place of business in Fremont,
20 California, designed and manufactured multimedia products for
21 personal computers.

22 11. Executives at Media Vision, including Faust, began
23 engaging in financial fraud by the third quarter ended September
24 30, 1993. The fraudulent conduct included recognizing revenue on
25 product that had not been shipped and not timely recognizing
26 product returns.

27 12. On October 19, 1993, Media Vision released its
28 financial results for the third quarter ended September 30, 1993

1 (the "third quarter"). The release reported revenue of
2 approximately \$64.3 million and net income of approximately \$5.3
3 million.

4 13. The October 19 release was materially false and
5 misleading, overstating Media Vision's revenue by at least \$9.4
6 million (17.1 percent). Senior officers at Media Vision caused
7 the overstatement in part in order to report strong financial
8 results in anticipation of a scheduled convertible debt offering
9 by the Company.

10 14. On October 20, 1993, Media Vision's registration
11 statement for a \$100 million dollar convertible debt offering
12 (plus an additional \$15 million overallotment) went effective and
13 the debt was sold to the public.

14 Faust Aided and Abetted Media Vision's
15 Overstatement of Third Quarter 1993 Results.

16 15. In late September 1993, Faust became aware that Media
17 Vision would not have sufficient component parts to fill an order
18 for multimedia upgrade kits for a large retailer.

19 16. Faust, after discussions with senior management at
20 Media Vision, directed subordinates in his manufacturing group to
21 prepare records that would indicate the kits were completed and
22 shipped to the retailer by September 30, 1993, the last day of
23 the third quarter. In reality, the kits were not yet ready for
24 shipment. Instead, they were sent to a manufacturing
25 subcontractor for final assembly and shipping to the retailer at
26 a later date. The kits were shipped during the fourth quarter
27 ended December 31, 1993 (the "fourth quarter").

28 //

1 17. As a result the conduct of Faust and other senior
2 officers, Media Vision falsely recognized \$7.1 million in revenue
3 for the third quarter and included that revenue in the financial
4 results released to the public October 19, 1993.

5 Faust Traded on Inside Information

6 18. On October 22, 1993, Faust sold 25,000 shares of Media
7 Vision common stock at an average sale price of \$33.00 for gross
8 proceeds of \$825,000. At the time, Faust knew that Media Vision
9 had falsely included \$7.1 million in revenue for the third
10 quarter.

11 Media Vision Fraudulently Overstated
12 1993 Fourth Quarter and Year End Results.

13 19. The fraudulent conduct intensified in the fourth
14 quarter, particularly in the last several weeks of the year.

15 20. On February 17, 1994, Media Vision released financial
16 statements for the 1993 fiscal year ended December 31, 1993
17 ("fiscal year 1993") and further explained the results in a
18 conference call with securities analysts that same day. The
19 February 17 release reported revenue for fiscal year 1993 of
20 \$241.1 million and income of \$19.9 million.

21 21. Media Vision's financial statements for the fourth
22 quarter and fiscal year 1993 were materially false and
23 misleading. They materially overstated revenue and income.

24 22. In August 1994, the Company restated its results for
25 fiscal year 1993, reporting revenue of \$149.7 million and
26 declaring a loss of \$99.2 million. The restatement showed that
27 the previously reported financial results for fiscal year 1993

28 //

1 had overstated revenue by \$91.4 million (61 percent) and income
2 by \$119.2 million.

3 Faust Aided and Abetted Media Vision's
4 Overstatement of 1993 Fourth Quarter and Year End Results.

5 23. Faust, after discussions with other senior officers,
6 participated in at least three transactions in the fourth quarter
7 involving the falsification of paperwork. In each transaction,
8 Media Vision improperly recognized revenue in fiscal year 1993 on
9 product that did not ship until 1994. Together these three
10 transactions resulted in the improper recognition of \$9.8 million
11 in revenue in the fourth quarter.

12 24. First, Faust directed the falsification of documents to
13 enable the improper recognition of \$4.8 million in multimedia
14 upgrade kits containing a particular type of speaker.

15 25. In late December 1993, Faust realized that Media Vision
16 would not obtain delivery of a sufficient number of the specific
17 speakers to fulfill orders it planned to ship by the end of the
18 year. Faust, after discussions with other senior management,
19 directed the creation of false documentation showing receipt of
20 the speakers on December 30, 1993. The unfinished kits were then
21 shipped to an outside assembler to await receipt of the speakers.
22 The kits were actually shipped to customers in late January and
23 early February 1994.

24 26. Second, Faust directed the falsification of paperwork
25 to facilitate the improper recognition of \$2.9 million in sales
26 of soundboards in 1993 that did not ship until January 1994.

27 27. Media Vision had contracted with a foreign manufacturer
28 to build Media Vision brand soundboards. Media Vision recognized

1 revenue when the foreign company shipped the product to Media
2 Vision's European distributors.

3 28. By late December, Faust realized that the majority of
4 those soundboards that Media Vision had planned to have shipped
5 during 1993 would not be ready. Faust called the foreign
6 manufacturer and requested that it send false confirmations of
7 shipments.

8 29. The foreign manufacturer sent two sets of documents.
9 The first set falsely confirmed the shipment of 43,950
10 soundboards to Europe in the last week of December; the second
11 truthful set showed that 36,300 of the soundboards did not ship
12 until the first half of January 1994.

13 30. Third, Faust directed the false receipt and shipment of
14 \$2.1 million of a particular model of multimedia kit.

15 31. On or about December 31, 1993, Faust directed the
16 creation of false documentation showing the receipt of 1800 kits.
17 The kits were then "shipped" on paper, triggering the recognition
18 of revenue on the sale in the fourth quarter. In fact, the goods
19 were not shipped until February 1994.

20 Faust Made a Misrepresentation to Auditors
21 in Connection with the 1993 Audit.

22 32. From at least late January 1994, Faust was aware that
23 Media Vision had failed to recognize in the fourth quarter
24 approximately \$11 million in returns from Media Vision's
25 distributors previously authorized by the Company.

26 33. In May 1994, during extended audit procedures in
27 connection with the audit for fiscal year 1993, Media Vision's
28 auditors asked Faust whether he was aware of any unrecognized or

1 unusual returns. Faust misrepresented to the auditors that he
2 was not aware of any such returns.

3 Media Vision's Fraud Caused its Stock to be Overvalued

4 34. Media Vision's overstated financial statements led the
5 market to overvalue Media Vision's stock. Media Vision stock
6 rose to a high of 46 1/2 in January 1994, before the fraud was
7 disclosed (representing a market capitalization of approximately
8 \$630 million). The stock fell during the spring of 1994,
9 reaching 5 1/4 on May 3, 1994.

10 35. In July 1994, Media Vision sought Chapter 11
11 protection.

12 36. In December 1994, the stockholders' equity interests
13 were rendered worthless by the bankruptcy court, when it
14 confirmed a plan of reorganization.

15 FIRST CLAIM FOR RELIEF

16 Violations of Section 10(b) of the Securities
17 Exchange Act and Rule 10b-5 thereunder

18 37. Paragraphs 1 through 36 above are realleged and
19 incorporated herein by reference.

20 38. Media Vision directly or indirectly, in connection with
21 the purchase or sale of securities, by the use of the means or
22 instrumentalities of interstate commerce, or of the mails, with
23 scienter: (a) employed devices, schemes or artifices to defraud;
24 (b) made untrue statements of material facts or omitted to state
25 material facts necessary in order to make the statements made, in
26 the light of the circumstances under which they were made, not
27 misleading; or (c) engaged in acts, practices or courses of
28 business which operated or would operate as a fraud or deceit

1 upon other persons, in violation of Section 10(b) of the Exchange
2 Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §
3 240.10b-5].

4 39. Faust knowingly and substantially assisted Media
5 Vision's violation of Section 10(b) of the Exchange Act and Rule
6 10b-5 thereunder.

7 40. Faust violated, and unless restrained and enjoined will
8 continue to violate, Section 10(b) of the Exchange Act and Rule
9 10b-5 thereunder.

10 SECOND CLAIM FOR RELIEF

11 Section 17(a) of the Securities Act, Section 10(b)
12 of the Exchange Act and Rule 10b-5 thereunder

13 41. Paragraphs 1 through 36 above are realleged and
14 incorporated herein by reference.

15 42. On October 22, 1993, Faust sold 25,000 shares of Media
16 Vision common stock while in possession of material, non-public
17 information, in violation of Section 17(a) of the Securities Act
18 [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15
19 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R.
20 § 240.10b-5].

21 43. By reason of the foregoing, Faust violated, and unless
22 enjoined will continue to violate, Section 17(a) of the
23 Securities Act [15 U.S.C. §77q(a)], Section 10(b) of the Exchange
24 Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §
25 240.10b-5].

26 //

27 //

28 //

1 THIRD CLAIM FOR RELIEF

2 Section 13(b)(5) of the Exchange Act

3 44. Paragraphs 1 through 36 above are realleged and
4 incorporated herein by reference.

5 45. Faust knowingly circumvented or knowingly failed to
6 implement a system of internal accounting controls in violation
7 of Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)].

8 46. Faust violated, and unless restrained and enjoined will
9 continue to violate Section 13(b)(5) of the Exchange Act [15
10 U.S.C. §78m(b)(5)].

11 FOURTH CLAIM FOR RELIEF

12 Rule 13b2-2 under the Exchange Act

13 47. Paragraphs 1 through 36 above are realleged and
14 incorporated herein by reference.

15 48. Faust (a) made or caused to be made a materially false
16 or misleading statement, and/or (b) omitted to state or caused
17 another person to omit to state, material facts necessary in
18 order to make statements made, in light of the circumstances
19 under which such statements were made, not misleading to an
20 accountant in connection with (i) the audit or examination of the
21 financial statements of Media Vision and/or (ii) the preparation
22 or filing of reports required to be filed by Media Vision with
23 the Commission.

24 49. Faust violated, and unless restrained and enjoined will
25 continue to violate, Rule 13b2-2 [17 C.F.R. § 240.13b2-2].

26 PRAYER FOR RELIEF

27 WHEREFORE, the Commission respectfully requests that this
28 Court:

1 I.

2 Permanently enjoin Faust, and his agents, servants,
3 employees and attorneys, and those persons in active concert or
4 participation with them who receive actual notice of the final
5 judgment of permanent injunction by personal service or
6 otherwise, and each of them, from directly or indirectly
7 violating Section 17(a) of the Securities Act [15 U.S.C. §
8 77q(a)] and Sections 10(b) and 13(b)(5) of the Exchange Act [15
9 U.S.C. §§ 78j(b) and 78m(b)(5)] and Rules 10b-5 and 13b2-2
10 thereunder [17 C.F.R. §§ 240.10b-5 and 240.13b2-2].

11 II.

12 Order Faust to pay civil penalties pursuant to Section 20(d)
13 of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of
14 the Exchange Act [15 U.S.C. § 78u(d)].

15 III.

16 Order Faust to disgorge an amount equal to his losses
17 illegally avoided, with interest thereon calculated.

18 IV.

19 Order Faust to pay civil monetary penalties pursuant to
20 Section 21A of the Exchange Act [15 U.S.C. § 78u-1].

21 V.

22 Prohibit Faust, pursuant to Section 21(d)(2) of the Exchange
23 Act [15 U.S.C. § 78u(d)(2)], from acting as an officer or
24 director of any issuer that has a class of securities registered
25 pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or
26 that is required to file reports pursuant to Section 15(d) of the
27 Exchange Act [15 U.S.C. § 78l].

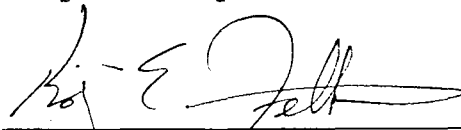
28 //

VI.

Grant such other and further relief as this Court may deem appropriate.

Dated: January 20, 1998

Respectfully submitted,



DAVID B. BAYLESS
HELANE L. MORRISON
KOJI E. FELTON

Attorneys for Plaintiff
SECURITIES AND EXCHANGE COMMISSION
44 Montgomery Street, Suite 1100
San Francisco, California 94104
Telephone: (415) 705-2500