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**UNITED STATES DISTRICT COURT**  
**DISTRICT OF ARIZONA**

12 SECURITIES AND EXCHANGE  
13 COMMISSION,

14 Plaintiff,

15 vs.

16 LANNY BROWN and SEAN FOX,

17 Defendants.

**COMPLAINT**

19 Plaintiff Securities and Exchange Commission (“SEC”) alleges:

20 **JURISDICTION AND VENUE**

21 1. The Court has jurisdiction over this action pursuant to Sections 21(d)(1), 21A,  
22 21(e) and 27(a) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§  
23 78u(d)(1), 78u-1, 78u(e) & 78aa(a).

24 2. Defendants have, directly or indirectly, made use of the means or  
25 instrumentalities of interstate commerce, of the mails, or of the facilities of a national  
26 securities exchange in connection with the transactions, acts, practices and courses of  
27 business alleged in this complaint.  
28

1 3. Venue is proper in this district under Section 27(a) of the Exchange Act, 15  
2 U.S.C. § 78aa(a), because defendants Lanny Brown and Sean Fox reside in this judicial  
3 district and because certain of the transactions, acts, practices and courses of conduct  
4 constituting violations of the federal securities laws occurred within this district.

5 **SUMMARY**

6 4. This case involves insider trading by defendants Lanny Brown and Sean Fox  
7 in the securities of International Rectifier Corporation (“International Rectifier”), where  
8 Brown worked at the time that he and Fox traded. In August 2014, shortly after learning  
9 that International Rectifier would be acquired by another company, Brown tipped his friend,  
10 Fox, about the acquisition and then they both acquired International Rectifier call options –  
11 bets that the stock price would go up once the deal was announced.

12 5. In doing so, Brown and Fox devised a scheme to conceal Brown’s  
13 involvement in the trading given that he was an International Rectifier employee who was  
14 not only prohibited by company policy from trading on material, nonpublic information, but  
15 was also subject to a “blackout period” at the time, which barred him from trading while the  
16 acquisition deal was being negotiated and finalized. Brown and Fox combined  
17 approximately \$12,000 of their funds into one of Fox’s brokerage accounts, and used these  
18 comingled funds to purchase the call options just a week before the August 20th  
19 announcement of the International Rectifier-Infineon deal. When the deal was disclosed on  
20 August 20, International Rectifier’s stock price jumped over 47%. The next day, Brown and  
21 Fox closed out their options positions, collectively reaping \$369,720 in profits from their  
22 illicit trading. Then, to further hide Brown’s role in the trading, Fox funneled Brown’s  
23 share of the trading profits by paying several of Brown’s personal expenses or writing  
24 checks to Brown’s adult and minor children and minor stepchildren. Brown and his wife  
25 then endorsed these checks and used the funds.

26 6. By engaging in this conduct, the defendants violated Sections 10(b) of the  
27 Exchange Act, 15 U.S.C. §§ 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.  
28 With this complaint, the SEC seeks permanent injunctions, disgorgement of ill-gotten

1 trading profits together with prejudgment interest, and civil penalties.

2 **DEFENDANTS**

3 7. Lanny Brown, age 49, resides in Queen Creek, Arizona. At all relevant times  
4 discussed in this complaint, Brown was employed by International Rectifier as director of  
5 Epi/Silicon Sourcing and Foundry Service Procurement in International Rectifier's  
6 Chandler, Arizona office.

7 8. Sean Fox, age 49, resides in Higley, Arizona. At all relevant times discussed  
8 in this complaint, Brown and Fox maintained a close friendship.

9 **RELATED ENTITIES**

10 9. International Rectifier is a power management technology and semi-conductor  
11 company that manufactures advance circuit devices and integrated power systems and  
12 components. Before being acquired by Infineon, International Rectifier was a Delaware  
13 Corporation with its principal executive offices in El Segundo, California. International  
14 Rectifier's common stock traded on the NYSE under the symbol "IRF" until January 2015,  
15 when International Rectifier's merger with Infineon became effective and International  
16 Rectifier ceased operating as an independent company.

17 10. Infineon is a German-based semiconductor manufacturer. On January 13,  
18 2015, Infineon completed its acquisition of International Rectifier.

19 **FACTS**

20 **A. Brown Acquired Material, Nonpublic Information about the Pending**  
21 **Acquisition of International Rectifier**

22 11. On August 20, 2014 at 9:05 am PST, International Rectifier and Infineon  
23 issued a joint press release announcing that Infineon would acquire International Rectifier  
24 for \$40 per share in an all-cash transaction valued at approximately \$3 billion.

25 12. On the day of the announcement, the trading price of International Rectifier's  
26 shares closed at \$39.10, up 47.21% from the prior date's closing price of \$26.56, and the  
27 trading volume increased by 19,815%, from 184,189 shares on August 19, 2014 to  
28 36,680,300 shares on August 20, 2014.

1           13. In the month leading to this announcement, International Rectifier’s  
2 executives and its board of directors held several meetings to discuss Infineon’s acquisition  
3 proposal. To help keep this information confidential, the pending acquisition was referred  
4 to internally at International Rectifier under the code name “Project Hawaii.”

5           14. International Rectifier shared information about the pending acquisition with  
6 employees only on a need-to-know basis, and employees who were informed about the  
7 pending acquisition were cautioned that the matter was highly confidential and were told  
8 that they were not permitted to share any information about it with anyone who was not  
9 involved with Project Hawaii. Employees who were involved with the project were  
10 required to sign a non-disclosure agreement acknowledging that all information they  
11 obtained regarding Project Hawaii was “non-public, confidential, and proprietary in nature”  
12 and that they would maintain the project and related information as confidential.

13           15. Before the August 20, 2014 announcement, International Rectifier provided  
14 information about Project Hawaii to only six employees from its Chandler, Arizona office,  
15 where Brown worked. Though Brown was not one of these employees, he nevertheless  
16 learned about the pending acquisition in early August 2014, in the course of his  
17 employment.

18           16. After learning about the pending acquisition, Brown shared this material,  
19 nonpublic information with others. In early August, Brown told Fox and another person that  
20 he was concerned about his job security because his employer was going to be acquired.  
21 During this time, Brown was also conducting job searches and sending out his resume to  
22 prospective employers. On or about August 12, 2014, Brown had lunch with a sales  
23 representative from one of International Rectifier’s suppliers and with a former colleague.  
24 At this lunch, Brown told both these individuals that International Rectifier would be an  
25 acquisition target.

26           **B. Brown Had a Duty to Maintain the Information He Obtained About the**  
27           **International Rectifier Acquisition as Confidential**

28           17. Brown was not a member of the Project Hawaii team. Regardless, based on

1 International Rectifier's policies and employee code of conduct, Brown was under a duty as  
2 an International Rectifier employee to maintain the confidentiality of any nonpublic  
3 information he obtained about the company, and was forbidden from insider trading and  
4 tipping.

5 18. International Rectifier's Insider Trading Policy recognized that employees, "as  
6 a result of their work with the Company, have access to information concerning the  
7 Company that may be [material, nonpublic] information." Hence, the Insider Trading  
8 Policy prohibited employees from purchasing or selling International Rectifier securities  
9 while in possession of such information, and from furnishing material, nonpublic  
10 information to others. Further, International Rectifier imposed strict "insider trading  
11 windows," which dictated the date ranges during which employees could engage in  
12 securities transactions concerning International Rectifier. Employees were limited to  
13 buying and selling International Rectifier securities only during periods within the trading  
14 window, and prohibited from engaging in such securities transactions during any date that  
15 fell outside of the insider trading windows.

16 19. When Brown joined International Rectifier in July 2004, he signed a  
17 document acknowledging that he had received and reviewed the company's code of ethics  
18 and its Insider Trading Policy. More recently, Brown again received copies of the Insider  
19 Trading Policy on April 25, 2014 and again on August 19, 2014, when the company emailed  
20 all employees regarding its trading windows.

21 20. Based on these trading windows, Brown and all other employees were  
22 prohibited from trading in International Rectifier securities from June 14, 2014 through  
23 August 24, 2014.

24 21. Further, in March 21, 2013 and in April 25, 2014, Brown completed  
25 International Rectifier's mandatory, annual online training modules regarding the  
26 company's code of ethics, which instructed, "You can't trade Company securities on the  
27 basis of [material, nonpublic] information you learn through your job. And you also can't  
28 share material nonpublic information with family members, friends, or anyone else." These

1 training modules also specified that in accordance with the company’s policy, an employee  
2 who possessed “material nonpublic information relating to International Rectifier or its  
3 business” was forbidden from buying or selling International Rectifier securities and could  
4 not engage “in any other action to take advantage of or pass on to others that information.”

5 **C. Brown and Fox Insider Traded and Engaged in a Scheme to Conceal**  
6 **Brown’s Role in the Trading**

7 22. Brown and Fox had been friends since at least 2009. They attend the same  
8 church and their wives are friends. In fact, in 2012, they had a joint trading account that  
9 Fox managed.

10 23. As alleged in more detail below, in early August 2014, after learning that  
11 International Rectifier would be acquired by another company, Brown contacted Fox and  
12 shared material, nonpublic information about the pending acquisition. Brown and Fox then  
13 acquired call options in International Rectifier based on this information and concealed  
14 Brown’s involvement in this trading by having Fox trade for both of them in Fox’s  
15 brokerage account. Brown tipped Fox about the pending acquisition with the intention that  
16 Fox use this information to trade in the securities of International Rectifier for both of them.

17 24. On several occasions, Brown called Fox shortly after being privy to  
18 information about the impending acquisition. For example, on August 6, 2014, a member of  
19 Project Hawaii who sat in an office next to Brown held several morning meetings to discuss  
20 Infineon’s due diligence questions. Early that afternoon, Brown called Fox. This phone call  
21 was the first call they had made to each other in over 11 months.

22 25. Then, on August 6, a Project Hawaii team member called Brown to request  
23 copies of contracts needed for the project’s due diligence. Less than an hour after emailing  
24 those contracts to the project team member, Brown again called Fox and they talked for  
25 about 30 minutes.

26 26. On August 11, 2014, Brown called Fox again. Within hours of that call,  
27 Brown withdrew \$6,000 in cash from one of his bank accounts, and gave this money to Fox  
28 for the purchase of call options in International Rectifier. Then, early that evening, Fox

1 deposited \$8,000, including the \$6,000 in cash he received from Brown, into a bank account  
2 he jointly holds with his wife.

3 27. The next day, on August 12, 2014, at Fox's direction, Fox's wife deposited an  
4 additional \$4,000 into her and her husband's account. Fox then wired his and Brown's  
5 combined \$12,000 into his options trading brokerage account. Brown and Fox called each  
6 other six times during the day. And throughout the day, Fox logged online to his options  
7 trading brokerage account and attempted, unsuccessfully, to purchase International Rectifier  
8 call options.

9 28. On August 13, 2014, Fox once again logged on to his options trading  
10 brokerage account at about 4:40 am PST, and submitted an order to purchase International  
11 Rectifier call options, but this order also was not filled. At 8:12 pm PST, Fox re-submitted  
12 orders to purchase International Rectifier call options with a \$30 strike price and September  
13 2014 expiration, which were successfully filled by the next morning.

14 29. Fox purchased 380 International Rectifier call option contracts for \$11,400  
15 (excluding commission and fees) for Brown and himself in his options trading brokerage  
16 account. In addition, Fox purchased another 40 International Rectifier call options for  
17 \$1,200 (excluding commission and fees) for himself in a separate IRA brokerage account  
18 using the funds he already had in this second account.

19 30. On August 20, 2014, International Rectifier and Infineon issued a joint press  
20 release announcing that Infineon would acquire International Rectifier in an all-cash  
21 transaction valued at approximately \$3 billion.

22 31. One day after the announcement, on August 21, 2014, Fox exited all of his  
23 and Brown's positions in International Rectifier options, making \$369,720 in illicit trading  
24 profits. The next day, on August 22, 2014, Brown and Fox met at about 6:30 am.

25 32. From September 2014 through at least mid-2015, Fox funneled a proportion of  
26 the illicit profits to Brown. From September 2, 2014 through June 2, 2015, Fox (and in a  
27 couple of instances, his wife), wrote nineteen checks totaling \$148,160.48 to Brown's minor  
28 stepchildren, minor and adult children, former son-in-law, contractors who were renovating

1 Brown's home, and to pay other entities for services provided to Brown. Brown and Fox  
2 structured these check payments to parcel a large payment to Brown into a series of smaller  
3 transactions over a period of about a year, in order to conceal that Brown was the intended  
4 payee. Brown or his wife cashed many of the checks that were made out to Brown's  
5 children. Most of the checks made to Brown's minor stepchildren were deposited into  
6 accounts these minors hold jointly with their mother, and then transferred to Brown's bank  
7 account or used to cover household expenses or other of Brown's obligations.

8 **D. Brown and Fox Traded on Material, Nonpublic Information**

9 33. Brown and Fox relied on material, nonpublic information about the pending  
10 acquisition of International Rectifier to trade in the company's options.

11 34. A reasonable investor would have viewed the information about the pending  
12 acquisition of International Rectifier as important to his or her investment decision. In fact,  
13 when International Rectifier's pending acquisition was publicly announced on August 20,  
14 2014, its stock price rose approximately 47.21% and its trading volume increased by  
15 19,815% from 184,189 shares on August 19, 2014 to 36,680,300 shares on August 20, 2014.

16 35. Defendants harmed members of the investing public when they gained an  
17 advantageous market position by trading in the securities of International Rectifier  
18 Corporation based on material, nonpublic information.

19 **E. Brown Breached the Duty Owed to His Employer**

20 36. Brown owed a duty of trust and confidence to his employer, International  
21 Rectifier, including a duty to abstain (i) from trading on the material, non-public  
22 information he acquired during the course of his employment concerning the acquisition,  
23 and (ii) from disclosing such information to others.

24 37. Brown knowingly, or recklessly, breached this duty of trust and confidence  
25 when he traded in the securities of International Rectifier based on material, nonpublic  
26 information regarding the pending acquisition. Brown had Fox execute Brown's trades in  
27 Fox's account in order to conceal his unlawful trading.

28 38. Brown also breached the duty of trust and confidence he owed International



1 Rectifier when he tipped Fox material, nonpublic information with the intention that Fox  
2 trade on that information. Brown received a personal benefit from tipping Fox.

3 **F. Fox Is Liable as a Tippee**

4 39. Fox knew, or had reason to know, that Brown's disclosure of material,  
5 nonpublic information regarding International Rectifier's pending acquisition was a breach  
6 of the duty Brown owed his employer. Fox understood that Brown was improperly tipping  
7 him inside information for a personal benefit.

8 40. While in knowing possession of material, nonpublic information about  
9 International Rectifier, Fox intentionally or recklessly used the information to trade.

10 **CLAIM FOR RELIEF**

11 **Fraud in Connection With the Purchase or Sale of Securities**

12 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

13 **(Against Brown and Fox)**

14 41. The SEC realleges and incorporates by reference paragraphs 1 through 40  
15 above.

16 42. Brown acquired information concerning the pending acquisition of  
17 International Rectifier in the course of his employment at a time when this information was  
18 nonpublic and held by International Rectifier as confidential information.

19 43. By trading on, and disclosing that material, nonpublic information concerning  
20 International Rectifier to Fox, Brown breached a duty of trust and confidence owed to his  
21 employer, International Rectifier.

22 44. Brown tipped Fox by providing material, nonpublic information concerning  
23 the pending acquisition of International Rectifier to Fox with the intent that Fox trade on  
24 this information, and thereby, with the intent to generate profits for Fox.

25 45. Brown also tipped Fox for a personal benefit. Brown, directly or indirectly,  
26 personally benefited, or expected to personally benefit, from disclosing material, nonpublic  
27 information concerning International Rectifier to his friend, Fox.

28 46. At the time that Fox traded in the securities of International Rectifier, Fox

1 knew, or was reckless in not knowing, that he was in possession of material, nonpublic  
2 information concerning International Rectifier's securities.

3 47. By engaging in the conduct described above, Brown and Fox, directly or  
4 indirectly, in connection with the purchase or sale of securities, by use of the means or  
5 instrumentalities of interstate commerce, or the mails, or the facilities of a national securities  
6 exchange: (a) employed devices, schemes or artifices to defraud; and/or (b) engaged in acts,  
7 practices, or courses of business which operated or would operate as a fraud or deceit upon  
8 any person in connection with the purchase or sale of any security.

9 48. By engaging in the foregoing conduct, Brown and Fox violated, and unless  
10 enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b),  
11 and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

12 **PRAYER FOR RELIEF**

13 WHEREFORE, the SEC respectfully requests that the Court:

14 **I.**

15 Issue findings of fact and conclusions of law that Brown and Fox committed the  
16 alleged violations.

17 **II.**

18 Issue judgments, in forms consistent with Fed. R. Civ. P. 65(d), permanently  
19 enjoining Brown, Fox and their agents, servants, employees, attorneys and those persons in  
20 active concert or participation with them, who receive actual notice of the order by personal  
21 service or otherwise, from violating Sections 10(b) of the Exchange Act, 15 U.S.C. §§  
22 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

23 **III.**

24 Order Brown and Fox to disgorge, on a joint and several basis, their illegal trading  
25 profits described herein, plus prejudgment interest.

26 **IV.**

27 Retain jurisdiction of this action in accordance with the principles of equity and the  
28 Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders

1 and decrees that may be entered, or to entertain any suitable application or motion for  
2 additional relief within the jurisdiction of this Court.

3 **V.**

4 Grant such other and further relief as this Court may determine to be just and  
5 necessary.

6 Dated: December 14, 2017

7 /s/ Yolanda Ochoa

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10 Attorneys for Plaintiff  
11 Securities and Exchange Commission  
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