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8 UNITED STATES DISTRICT COURT
9 NORTHERN DISTRICT OF CALIFORNIA
10 SAN FRANCISCO DIVISION

12 SECURITIES AND EXCHANGE COMMISSION,
13 Plaintiff,
14 v.
15 JERRY SHAW-YAU CHANG,
16 Defendant.

Civil Case No. C 04-4144 MHP

COMPLAINT FOR PERMANENT
INJUNCTION AND OTHER LEGAL AND
EQUITABLE RELIEF

DEMAND FOR JURY TRIAL

17
18 Plaintiff Securities and Exchange Commission (“Commission”) alleges:

19 **SUMMARY OF ACTION**

20 1. This enforcement action arises from the false reporting by Clarent Corporation
21 (“Clarent”) of approximately \$13 million in revenue in its annual filing with the Commission for its
22 2000 fiscal year and the overstatement of \$25 million in cash assets in Clarent’s quarterly filing for
23 its June 2001 fiscal quarter. Clarent’s former president and chief executive officer, defendant Jerry
24 Shaw-Yau Chang (“Chang”), instigated the company’s false revenue reporting and overstatement of
25 net income and assets. Chang also circumvented Clarent’s internal accounting controls and misled its
26 outside auditors by concealing his activities from Clarent’s accounting personnel.

27 2. In summary, during the fiscal year ended December 31, 2000, Chang orally promised
28 D-Link Corporation (“D-Link”), a Clarent customer based in Taiwan, that if D-Link placed orders for

1 | \$13 million of Clarent product but could not resell the product, Clarent would arrange for a third-
2 | party to buy the product from D-Link. Chang's oral promise meant that D-Link was not currently
3 | obligated to pay \$13 million to Clarent, and could instead wait until D-Link found its own
4 | customer(s) for the product or Clarent found a customer for D-Link. In light of making D-Link's
5 | payment for product contingent upon some future development, Chang knew that Clarent could not
6 | report the purported \$13million in product "sales" as revenue in its earnings announcements and
7 | periodic reports filed with the Commission. Chang nonetheless made the oral promises to D-Link,
8 | and then withheld information about the oral terms from Clarent's corporate headquarters in the
9 | United States. Chang therefore engaged in a fraudulent scheme to have Clarent report inflated
10 | product sales revenue of \$13 million in violation of both Generally Accepted Accounting Principles
11 | ("GAAP") and the federal securities laws.

12 | 3. Later, during the fiscal quarter ended June 30, 2001, Chang authorized the transfer of
13 | \$25 million from Clarent's Taiwan bank accounts to Artacula Corporation ("Artacula"), an entity
14 | controlled by a Clarent executive and his family, without the necessary authorization from Clarent's
15 | Vice President of Finance and Clarent's Chief Financial Officer. At about the same time, Chang had
16 | Clarent guarantee an \$11 million loan to Artacula, once again without the necessary authorizations.
17 | The \$25 million transfer to Artacula reduced Clarent's cash assets by \$25 million on June 30, 2001,
18 | but was not disclosed in the company quarterly report for that period. Additionally, given the
19 | unauthorized character of the fund transfer to Artacula – as well as the way in which the funds were
20 | used – the \$25 million transfer should have been treated as a refund and/or expense on Clarent's
21 | financial statements for the June 2001 quarter so as to reduce the company's assets and net income.

22 | 4. In July and August 2001, Clarent learned that funds were disbursed from its Taiwan
23 | accounts in violation of internal controls and that various customers were insisting upon the right to
24 | return their unwanted product to Clarent. In September 2001, Clarent announced that its cash and
25 | revenue might have been overstated and that it had placed Chang and other high-level executives on
26 | administrative leave while it conducted an internal investigation. Officials at the NASDAQ National
27 | Market suspended trading in Clarent's shares on September 4, 2001 with Clarent shares trading at
28 | \$5.37 per share. When trading resumed on January 30, 2002, Clarent had been delisted from

1 NASDAQ and its shares opened trading on the OTC market Pink Sheets Electronic Quotation
2 Service at \$.50 per share. Clarent later issued an accounting restatement that eliminated most of the
3 company's revenue for a number of periods, including those ended December 31, 2000, March 31,
4 2001 and June 30, 2001. In the end, Clarent's shareholders lost nearly the total value of their
5 investment in the company.

6 5. Given the fraud perpetrated by Chang upon Clarent's shareholders and the securities
7 markets, the Commission brings this action to obtain a permanent injunction prohibiting Chang's
8 further violations of the federal securities laws, to force Chang to disgorge his ill-gotten gains, to bar
9 Chang from serving as an officer or director of a publicly reporting company and to impose civil
10 monetary penalties.

11 **JURISDICTION AND VENUE**

12 6. The Commission brings this action pursuant to Sections 21(d) and 21(e) of the
13 Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §§ 78u(d) and 78u(e)]. This Court
14 has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§
15 78u(e) and 78aa].

16 7. Chang directly or indirectly, made use of the means and instrumentalities of interstate
17 commerce, of the mails, or of the facilities of a national securities exchange, in connection with the
18 acts, practices, and courses of business and transactions alleged herein.

19 8. This district is an appropriate venue for this action under Section 27 of the Exchange
20 Act [15 U.S.C. § 78aa]. Certain of the transactions, acts, practices and courses of business
21 constituting the violations alleged herein occurred within the Northern District of California.

22 9. Assignment to the San Francisco Division is appropriate pursuant to Civil Local Rule
23 3-2(d) because a substantial part of the events that give rise to the Commission's claims occurred in
24 San Mateo County, where Clarent was headquartered.

25 **BACKGROUND ALLEGATIONS**

26 ***A. Clarent's Organization***

27 10. Clarent was originally organized in 1996 in the State of California under the name
28 "NetiPhone, Incorporated." The company changed its name in May 1997 to "Clarent Corporation,"

1 and was reincorporated in June 1999 in the State of Delaware. During the relevant period, Clarent's
2 corporate headquarters were in Redwood City, California. At the current time, Clarent is a corporate
3 shell without any business operations. Previously, Clarent developed, sold and serviced software and
4 hardware products designed to manage the transmission of voice and data over the internet.

5 11. Chang was a director of Clarent from July 1996 until his termination in September
6 2001. He also served as Clarent's President from July 1996 to April 2001 and Chief Executive
7 Officer from July 1996 to July 2001. In July 2001, Chang became Clarent's Chairman of the Board
8 and Chief Strategist, and held those positions until his termination in September 2001. Chang's
9 compensation consisted of a base salary and a performance bonus. For 2000, Chang received a
10 \$185,000 bonus. Chang also owned low-cost "founder stock" and received "regrant options" to
11 purchase 41,156 shares of Clarent stock at a reduced exercise price between August 15, 2001 and
12 November 15, 2001.

13 12. One of the persons reporting to Chang was Mathew Ming-Chang Chiang ("Chiang").
14 Chiang joined Clarent in 1997 as a Marketing Director. In September 2000, Chiang became a Vice
15 President and the General Manager of Clarent's Asia Pacific Region, which had its office in Taiwan
16 and which included China, Japan, Korea, Singapore and India. During 2001, Chiang became a
17 Clarent corporate officer and the President of its Asia Pacific Region.

18 13. Articula is a California corporation with offices in Taipei, Taiwan and Milpitas,
19 California and is affiliated with two Taiwanese firms, Great MinCom Communication Corporation
20 and Great MinCom Products Corporation. For purposes of this Complaint, the name "Articula" will
21 cover the California corporation and the two affiliated Taiwanese firms. Articula's filings with the
22 California Secretary of State in October 2000 identify Chiang as a member of Articula's board of
23 directors and Chiang's father as Articula's Chairman of the Board. A listing of Articula shareholders
24 identifies Chiang's mother as Articula's Chairman of the Board effective May 1, 2001. Over time,
25 Chang and Chiang transferred Clarent funds to Articula and exercised sufficient control over Articula
26 that they could use Articula to further their sales and revenue schemes at Clarent. Articula therefore
27 functioned as a related party of Clarent in any transactions involving Clarent.

1 **B. Clarent's Business and Reporting Obligations**

2 14. Clarent held its initial public offering on July 1, 1999, and registered its common stock
3 with the Commission pursuant to Section 12(g) of the Exchange Act. Clarent's shares traded on the
4 NASDAQ National Market under the symbol "CLRN" until NASDAQ suspended trading in
5 September 2001 and delisted the shares in January 2002. Subsequently, Clarent's shares have traded
6 on the "Pink Sheets" over-the-counter market. Clarent filed a Form 15 with the Commission
7 terminating its registration on April 20, 2004.

8 15. As a publicly traded company, Clarent was required to comply with various
9 Commission regulations designed to ensure that the company accurately recorded and reported its
10 financial results to investors. Those Commission regulations obligated Clarent to report its financial
11 results on a quarterly basis in a Form 10-Q quarterly report and on an annual basis in a Form 10-K
12 annual report. Those regulations also required Clarent to comply with GAAP in reporting its
13 financial results.

14 16. The Commission's regulations and accounting guidelines moreover required Clarent
15 to adopt critical accounting policies. Clarent therefore has the following revenue recognition policy,
16 which was disclosed in its Form 10-K annual report for the year ended December 31, 2000: "Revenue
17 is recognized at the time of shipment of the products when persuasive evidence of an arrangement
18 exists, the fee is fixed and determinable, when no significant contractual obligations or acceptance
19 terms, if any, remain outstanding and collection of the resulting receivable is deemed probable."
20 Under that policy as well as the requirements of GAAP, Clarent could not recognize revenue for any
21 "contingent sale" whereby the customer did not have a binding obligation to pay for, and keep, the
22 product purchased.

23 17. At the end of each quarter, the sales force held meetings in which they discussed what
24 steps needed to occur in order to make an order "clean" for revenue recognition purposes. Chang
25 participated in these meetings, especially as the end of the quarter approached. Clarent's Chief
26 Financial Officer also discussed revenue recognition issues at all sales meetings. Clarent's Chief
27 Financial Officer also specifically instructed Chang in December 2000 that if a payment contingency
28 remained as a term of the deal, "the deal is not done" until the contingency is removed.

1 18. Chang signed Clarent's Forms S-1s for its initial public offering and secondary
2 offering and Form 10-K annual reports for 1999 and 2000, each of which contained a description of
3 Clarent's revenue recognition policy. Chang also signed numerous Form 10-Q quarterly reports,
4 including the Form 10-Q for the quarter ended March 31, 2001. In the management representation
5 letter to Ernst & Young ("E&Y") dated February 15, 2001, Chang represented that all revenue had
6 been properly recorded in the Form 10-K in accordance with Statement of Position 97-2, Statement
7 of Position 98-9 and interpretations of Staff Accounting Bulletin 101.

8 19. In its quarterly and annual filings with the Commission, Clarent reported its revenue
9 on a consolidated basis for all of its worldwide sales regions. Clarent's filings also provided a
10 breakdown of the company's revenue for each of its geographic sales areas – the United States, the
11 Other Americas, the Asia Pacific Region and the combined Europe, Middle East and Africa Region.
12 According to that geographic breakdown, most of Clarent's revenue initially came from sales to
13 customers in North America. Over time, however, a rapidly increasing percentage of Clarent's
14 revenue supposedly came from sales to customers in its Asia Pacific Region.

15 20. During the 1999 fiscal year, Clarent reported \$20,365,000 in revenue in the United
16 States and \$15,999,000 revenue in the Asian Pacific Region. During the 2000 fiscal year, Clarent
17 reported \$34,695,000 in revenue in the United States and a much higher \$67,172,000 in revenue in
18 the Asia Pacific Region.

19 21. The purported growth in Clarent's sales in the Asia Pacific Region supposedly
20 continued during the 2001 fiscal year. In the Form 10-Q quarterly report for the fiscal quarter ended
21 March 31, 2001, Clarent reported total quarterly revenue of \$61,192,000. When broken out by
22 region, Clarent's quarterly revenue in the United States was \$6,916,000, while its quarterly revenue
23 in the Asian Pacific Region was \$47,496,000. Similarly, in its Form 10-Q quarterly report for the
24 quarter ended June 30, 2001, Clarent reported total quarterly revenue of \$63,152,000. Broken out by
25 region, Clarent's quarterly revenue for the United States had declined to \$4,114,000, while quarterly
26 revenue for the Asia Pacific Region had increased to \$49,078,000.

CHANG'S FRAUDULENT ACTIVITIES

A. *The False Revenue in the Year Ended December 31, 2000*

22. In mid-December 2000, Chang met with D-Link, a Taiwanese technology firm, and convinced D-Link to place an order with Clarent for \$7.8 million of Clarent hardware and services. Chang agreed on behalf of Clarent agreed that if D-Link could not sell the Clarent product and services, Clarent would arrange for Artacula to buy that product and services from D-Link. D-Link then issued a purchase order for \$7.8 million of Clarent hardware and services.

23. Shortly before the end of the quarter in December 2000, Chang and Chiang met with D-Link and obtained a second purchase order for Clarent software. At a dinner meeting, Chang and Chiang promised D-Link that if it purchased Clarent software, they would again arrange to have Artacula buy that software from D-Link if it could not find a customer. Chang and Chiang provided D-Link with four purchase orders for the Clarent software at the dinner meeting. A day or so later, an officer of D-Link signed the purchase orders for the Clarent software. Those purchase orders, which totaled \$7.2 million, were signed on December 29, 2000, the last business day of the year.

24. Without Chang's promises to have Artacula purchase the Clarent product and services if D-Link could not find its own customer(s), D-Link would not have purchased any product or services from Clarent. Chang's promises removed D-Link's risk that it would be paying Clarent for unneeded product and services if D-Link could not find a buyer. A memo by Clarent's Chief Financial Officer, dated December 29, 2000, stated that the D-Link order and another sales order "were delivered, making our street numbers. This was a surprise and relief to the entire group."

25. Clarent shipped the hardware and software to D-Link on December 28 and 30, 2000, respectively. The hardware order was shipped to D-Link in California because an end-user customer had not yet been identified to buy the product from D-Link. D-Link believed that it would be cheaper and easier to ship to that location, rather than Taiwan.

26. After D-Link failed to find a customer for the product, Artacula issued purchase orders to D-Link for the product and services that D-Link bought from Clarent. On March 30, 2001, D-Link received five purchase orders from Artacula for the \$15 million of hardware, services and software purchased by D-Link from Clarent. D-Link paid Clarent at around the same time it received the

1 | Artacula orders. Later, Artacula paid D-Link for the product and services with wire transfers of \$10
2 | million on June 28, 2001 and \$5 million on June 29, 2001. Just before making those payments to D-
3 | Link, Artacula received \$25 million for Clarent (in the unauthorized cash transfer by Chang and
4 | Chiang alleged below), and therefore used Clarent's funds to pay D-Link for the unsold Clarent
5 | product and services.

6 | 27. Artacula did not, in fact, have any business need for the Clarent product and services
7 | that it supposedly purchased from D-Link. D-Link asked Chiang several times for shipping
8 | instructions for the product purchased by Artacula, but Chiang never provided D-Link with the
9 | instructions. D-Link attempted to ship via messenger to Artacula the software product purchased
10 | from Clarent. This shipment was returned to D-Link. As of February 2003, the Clarent hardware
11 | that D-Link had purchased was still being stored by D-Link in a warehouse in California despite
12 | Artacula's supposed purchase order for the hardware.

13 | 28. Neither Chang nor Chiang informed Clarent's finance or sales order administration
14 | department of their oral promises to D-Link or of Artacula's subsequent "purchases" from D-Link.
15 | Chang also concealed the side arrangements with D-Link from Clarent's outside auditors, Ernst &
16 | Young. He signed a management representation letter to E&Y dated February 15, 2001, in which he
17 | represented, "We have made available to you all significant contracts[.]" He also represented in that
18 | letter that "There are no material transactions that have been improperly recorded in the accounting
19 | records underlying the financial statements." In addition, the letter stated that all revenue had been
20 | properly recorded and that "[w]e are not aware of any alternative arrangements, verbal or written,
21 | made with customers." Those representations were false because he and Chiang had promised D-
22 | Link to find a buyer for any product and services that D-Link purchased from Clarent but could not
23 | sell.

24 | 29. As a result of his improper conduct, Chang improperly induced Clarent to recognize
25 | revenue on the \$13.2 million in product orders from D-Link (while the \$1.8 million in service
26 | revenues were properly deferred by the company). Clarent subsequently included that \$13.2 million
27 | in contingent product revenue in its Form 10-K filed for the quarter ended December 31, 2000.
28 | Clarent reported revenue of \$53.2 million for the three months ended December 31, 2000. By

1 including \$13.2 million of contingent product revenue from the fraudulent D-Link orders, Clarent
2 materially overstated its fourth quarter revenue by 33%.

3 **B. Chang Transfers \$35 Million to Artacula Without Authorization**

4 30. In May and June 2001, Chang and Chiang requested that Clarent send \$35 million
5 from its headquarters in Redwood City, California to the Clarent Asia Pacific Region. Chang falsely
6 represented to Clarent officials that he wanted Clarent Asia Pacific to have its own working capital
7 and to be a separate profit-and-loss entity so that it could eventually be listed on the Hong Kong or
8 Taiwan Stock Exchange. Chang also represented that unless the money was transferred to Clarent
9 Asia Pacific by the end of June 2001, Clarent would fail to close large transactions for the June 2001
10 quarter. Similarly, Chiang falsely represented that the money was needed to run the Asian operations
11 and for a possible stock offering by Clarent Asia Pacific.

12 31. Chang presented the funding request to Clarent's board of directors. The board agreed
13 to transfer the funds, but imposed additional internal controls to ensure headquarters' oversight over
14 the use of the funds. Such controls were needed because in June 2001, Clarent's Chief Financial
15 Officer and in-house legal counsel had determined that Clarent's Asia Pacific Office had previously
16 disbursed funds for consulting services to Artacula without obtaining any written formal agreement
17 for those services. Clarent's Chief Financial Officer had therefore warned Chang and Chiang in June
18 2001 that such undocumented payments were improper and that the money should be recovered.
19 Clarent's board of directors therefore specified additional internal controls in the Financial Control
20 Procedures Agreement. Chang, Chiang, Clarent's Chief Financial Officer and the Controller of
21 Clarent Asia Pacific signed the Financial Control Procedures Agreement on June 22, 2001. The new
22 procedures stated that approval by the Vice President of Finance at Clarent's headquarters was
23 required for transfers between \$1 million and \$5 million. Clarent's Chief Financial Officer's
24 approval was required for transfers exceeding \$5 million.

25 32. On June 22, 2001, the board approved the new procedures and the transfer of funds
26 from Clarent headquarters to the Clarent Asia Pacific Office, which was located in Taiwan. On June
27 26, 2001, Clarent headquarters transferred \$35 million to the Clarent Asia Pacific Office's bank
28 accounts.

1 33. Notwithstanding the internal controls procedures imposed by Clarent’s board and the
2 warnings by Clarent’s Chief Financial Officer that undocumented payments were improper, Chang
3 and Chiang almost immediately disbursed the funds from the Clarent Asia Pacific Office to Articula
4 without the necessary approval of Clarent’s Vice President of Finance or Clarent’s Chief Financial
5 Officer. Chang and Chiang also failed to follow the Chief Financial Officer’s earlier warning that
6 funds could not be disbursed without documentation establishing the obligation by Articula to repay
7 the money or the purpose for transferring the money. Of the \$35 million that it received on June 26,
8 2001, the Clarent Asia Pacific Office promptly transferred \$25 million to Articula on June 27, 2001
9 and the remaining \$10 million in early July 2001. One day after receiving \$25 million from the
10 Clarent Asia Pacific Office, Articula paid \$10 million to D-Link on June 28, 2001 to cover part of its
11 “purchase” of the product and services that Clarent “sold” to D-Link in December 2000. The
12 following day, June 29, 2001, Articula paid another \$5 million to D-Link to cover the balance of its
13 “purchase” of the product and services that Clarent “sold” to D-Link in December 2000.

14 34. Chang authorized the Clarent Asia Pacific Office to transfer the funds to Articula.
15 When interviewed by Clarent’s outside counsel and audit committee during Clarent’s internal
16 investigation of the fund transfer, Chang admitted that he did not obtain the Chief Financial Officer’s
17 required approval or the board of director’s approval before the money was transferred to Articula.

18 35. During Clarent’s internal investigation, Chiang admitted knowing about the transfer of
19 the funds from the Clarent Asia Pacific Office to Articula. Chiang also stated that he understood his
20 obligations under the Financial Controls Procedure Agreement and knew that he needed approval
21 from Clarent’s finance department for any expenditure over \$1 million. Chiang also said that Chang
22 authorized the release of the fund transfer to Articula.

23 36. Because Chang and Chiang failed to inform Clarent about the improperly transferred
24 \$25 million from the Clarent Asia Pacific Office’s bank accounts to Articula, Clarent’s Form 10-Q
25 quarterly report for the period ended June 30, 2001 falsely included the \$25 million on the balance
26 sheet’s presentation of the company’s “cash” assets and failed to disclose the related party transaction
27 with Articula. Additionally, because the \$25 million transfer did not take place in accordance with
28 the Financial Control Procedures Agreement, Clarent had not authorized the transfer and, moreover,

1 did not reach any fixed and determinable agreement on or before June 30, 2001 with Articula for
2 repayment of the money. Furthermore, at the time of transfer, Articula did not provide Clarent with
3 any documentation for the use of the \$25 million. Chang therefore induced Clarent to materially
4 overstate its cash by \$25 million in the Form 10-Q filing and earnings release for the quarter ended
5 June 30, 2001. Chang also induced Clarent's material overstatement of net assets and income for the
6 June 2001 quarter because the \$15 million that went to Articula and then went to D-Link in late June
7 2001 should have treated as a disguised customer refund for unused Clarent product, while the
8 remaining \$10 million that went to Articula in late June 2001 should have be written off as an
9 employee theft loss or some other expense.

10 **C. *Chang Has Clarent Guarantee an \$11 Million Loan Without Disclosing the***
11 ***Resulting Liability***

12 37. During a telephone call in June 2001, Chiang told D-Link that Clarent was going to
13 make an investment in Articula. Chiang said that they were waiting for approval from Clarent's
14 board of directors, but that Articula needed the money immediately to make a deposit on a project in
15 India. Chiang asked D-Link to loan the \$11 million to Articula until Clarent's board of directors
16 approved the investment. Once approved by the board of directors, Clarent would make the
17 investment in Articula and Articula would repay D-Link. D-Link called Chang, who described the
18 loan from D-Link as a bridge loan until Clarent's board approved the investment.

19 38. D-Link agreed to lend \$11 million to Articula but wanted Clarent to guarantee
20 repayment of D-Link's loan. Chang signed a loan guarantee agreement, effective as of June 30,
21 2001, in which Clarent guaranteed to repay D-Link the \$11 million in the event that Articula failed to
22 repay D-Link. The loan was due to be paid in full on July 20, 2001.

23 39. Articula defaulted on the loan by failing to repay D-Link on July 20, 2001. D-Link
24 then demanded repayment of the loan under the guarantee issued by Clarent. On December 31, 2001,
25 D-Link sued Clarent for payment under the loan guarantee.

26 40. Chang failed to disclose the existence of the guarantee to accountants and others at
27 Clarent. When interviewed during Clarent's internal investigation, Chang admitted that no one at
28 Clarent knew that he had gone to D-Link to obtain the financing for a purported bid deposit for D-

1 Link India. Chang also admitted that he did not tell Chief Financial Officer Simon Wong, Co-
2 founder Mike Vargo or anyone on Clarent's board of directors about his intention to sign the
3 guarantee. As a result, Clarent failed to fulfill its requirements under the securities laws and GAAP
4 to disclose the guarantee in its second quarter earnings release and the Form 10-Q quarterly report for
5 the quarter ended June 30, 2001. Furthermore, when Clarent filed its Form 10-Q on August 14, 2001
6 it failed to disclose that the Artacula loan was in default and that Clarent had become liable to D-Link
7 for \$11 million.

8 ***D. Clarent's Restatement of Revenue for the December 2000 Quarter***

9 41. In the original Form 10-K filed by Clarent on March 29, 2001 for the year ended
10 December 31, 2000, Clarent reported total revenue of \$53.2 million and a net loss of \$14.1 million
11 for the three month period ended December 31, 2000. By including the D-Link orders as revenue,
12 Clarent overstated its fourth quarter revenue by 33%.

13 42. On May 8, 2002, Clarent filed an amended annual report on Form 10-K for the year
14 ended December 31, 2000, in which it restated its financial statements. In its Amended Form 10-K,
15 Clarent reported that its internal investigation revealed that significant amounts had been spent by
16 Clarent Asia Pacific without the necessary authorizations and that much of the revenue reported by
17 the Asia Pacific Region was, in reality, improper and violated the company's revenue recognition
18 policy:

19 The Company discovered that its revenue had been overstated for certain periods because
20 revenue from sales in the Asia-Pacific region had been recognized in situations where
21 customers had indirectly received Company funds from third parties, by means of
22 arrangements effected through unauthorized acts of Company employees. These arrangements
23 were entered into in violation of Company procedures and were not reported to the
24 appropriate personnel within the Company.

23 Revenue also had been overstated for certain periods because revenue had been recognized
24 from certain sales in the Asia-Pacific region where customers now claim to have return rights
25 or that the Company has repurchase obligations. The Company now believes that certain
26 Company personnel may have entered into agreements with customers in the Asia-Pacific
27 region purporting to provide such return rights or repurchase obligations. These agreements
28 were entered into in violation of Company procedures and were not reported to the
appropriate personnel within the Company.

27 43. Clarent's amended Form 10-K also stated that its internal investigation found that
28 Clarent funds had been transferred to the Artacula entities, which may have been under the control of

SECOND CLAIM FOR RELIEF

Aiding and Abetting Violations of Section 10(b) of the Exchange Act and Rule 10b-5

49. The Commission realleges and incorporates by reference Paragraphs 1 through 45 above.

50. Clarent, directly or indirectly, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce, or of the mails, with scienter:

(a) employed devices, schemes, or artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and

(c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons, including purchasers and sellers of securities.

66. Chang knowingly provided substantial assistance to Clarent's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5], in violation of Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

67. Chang aided and abetted, and unless enjoined will continue to violate and to aid and abet, violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

THIRD CLAIM FOR RELIEF

Violations of Section 13(b)(5) of the Exchange Act and Rules 13b2-1 and 13b2-2

68. The Commission realleges and incorporates by reference Paragraphs 1 through 45 above.

69. Chang knowingly circumvented Clarent's system of internal accounting controls and knowingly falsified or caused to be falsified Clarent's books, records and accounts within the meaning of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)], in violation of Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

70. Chang, directly or indirectly, (a) made or caused to be made a materially false or misleading statement, or (b) omitted to state, or caused another person to omit to state, any material

1 fact necessary in order to make statements made, in light of the circumstances under which such
2 statements were made, not misleading to an accountant in connection with (1) any audit or
3 examination of the financial statements of the issuer required to be made or (2) the preparation or
4 filing of any document or report required to be filed with the Commission , in violation of Rule 13b2-
5 2 of the Exchange Act [17 C.F.R. § 13b2-2].

6 71. Chang violated and, unless restrained and enjoined, will continue to violate Section
7 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] , Rule 13b2-1 [17 C.F.R. § 240.13b2-1], and
8 Rule 13b2-2 [17 C.F.R § 240.13b2-2].

9 **FOURTH CLAIM FOR RELIEF**

10 **Aiding and Abetting Violations of Section 13(a) of the Exchange Act and**

11 **Rules 12b-20, 13a-1 and 13a-13**

12 72. The Commission realleges and incorporates by reference Paragraphs 1 through 45
13 above.

14 73. Clarent filed with the Commission quarterly reports on Form 10-K for the year ended
15 December 31, 2000 that contained untrue statements of material fact and omitted to state material
16 information required to be stated therein or necessary in order to make the required statements made,
17 in the light of the circumstances under which they were made, not misleading, in violation of Section
18 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20 and 13a-1 thereunder [17 C.F.R.
19 §§ 240.12b-20 and 240.13a-1].

20 74. Clarent filed with the Commission quarterly reports on Form 10-Q for the quarters
21 ended March 31, 2001 and June 30, 2001 that contained untrue statements of material fact and
22 omitted to state material information required to be stated therein or necessary in order to make the
23 required statements made, in the light of the circumstances under which they were made, not
24 misleading, in violation of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20
25 and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20 and 240.13a-13].

26 75. Chang knowingly provided substantial assistance to Clarent's violation of Section
27 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13 thereunder [17
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1 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13], in violation of Section 20(e) of the Exchange Act
2 [15 U.S.C. § 78t(e)].

3 76. Chang aided and abetted, and unless enjoined will continue to aid and abet, violations
4 of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1 and 13a-13
5 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

6 **FIFTH CLAIM FOR RELIEF**

7 **Aiding and Abetting Violations of Section 13(b)(2)(A) of the Exchange Act**

8 77. The Commission realleges and incorporates by reference Paragraphs 1 through 45
9 above.

10 78. Clarent failed to make and keep books, records, and accounts which, in reasonable
11 detail, accurately and fairly reflected the transactions and dispositions of the assets of the company, in
12 violation of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

13 79. Chang knowingly provided substantial assistance to Clarent's violation of Section
14 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)], in violation of Section 20(e) of the
15 Exchange Act [15 U.S.C. § 78t(e)].

16 80. Chang aided and abetted, and unless enjoined will continue to aid and abet, violations
17 of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

18 **PRAYER FOR RELIEF**

19 WHEREFORE, the Commission respectfully requests that this Court:

20 I.

21 Permanently enjoin Chang from violating, directly or indirectly, Sections 10(b), 13(a),
22 13(b)(2)(A) and 13(b)(5) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1, 13a-13, 13b2-1 and
23 13b2-2 thereunder.

24 II.

25 Order Chang to disgorge all ill-gotten gains received from his illegal conduct, including
26 prejudgment interest.

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III.

Order Chang to pay civil penalties pursuant to Section 21(d) of the Exchange Act. [15 U.S.C. § 78u].

IV.

Prohibit Chang from acting as an officer or director of any issuer that has a class of securities described in Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)].

V.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

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

Dated: September 30, 2004

Helane L. Morrison
John S. Yun
Kathleen K. Bisaccia
Victor W. Hong

By: _____
John S. Yun
Attorneys for Plaintiff
SECURITIES AND EXCHANGE COMMISSION

DEMAND FOR JURY TRIAL

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Plaintiff Securities and Exchange Commission requests a trial by jury.

Dated: September 30, 2004

SECURITIES AND EXCHANGE COMMISSION

By: _____
John S. Yun
Attorneys for Plaintiff