

1 SCOTT W. FRIESTAD, *pro hac vice*
2 ROBERT B. KAPLAN, *pro hac vice*
3 BRIAN O. QUINN, *pro hac vice*
4 MARK E. WOLFE, *pro hac vice*
5 MICHELLE GIARD DRAEGER, *pro hac vice*
6 Securities and Exchange Commission
7 100 F Street, N.E.
8 Washington, D.C. 20549-5631
9 friestads@sec.gov
10 kaplanr@sec.gov
11 quinnb@sec.gov
12 wolfeme@sec.gov
13 giardm@sec.gov

14 **LOCAL COUNSEL:**

15 JOHN B. BULGOZDY, Cal. Bar No. 219897
16 Securities and Exchange Commission
17 RANDALL R. LEE, Regional Director
18 BRIANNE N. MITCHELL, Associate Regional Director
19 5670 Wilshire Boulevard, 11th Floor
20 Los Angeles, California 90036-3648
21 Telephone: (323) 965-3998
22 Facsimile: (323) 965-3908
23 bulgozdyj@sec.gov

24 Attorneys for Plaintiff Securities and Exchange Commission

25 **UNITED STATES DISTRICT COURT**
26 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**
27 **WESTERN DIVISION**

28 SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

vs.

DEOG KYOON JEONG

Defendant.

Case No. CV

COMPLAINT FOR VIOLATION
OF THE SECURITIES LAWS

1 Plaintiff Securities and Exchange Commission (the “Commission”) alleges:
2

3 **SUMMARY**

4 1. This enforcement action involves insider trading in the securities of Silicon
5 Image, Inc., a California-based semiconductor company, by Deog Kyoon Jeong (“Jeong”), a
6 Silicon Image co-founder and consultant. On November 7, 2003, Jeong was told by Silicon
7 Image’s CEO that the audit committee of the board of directors had launched an internal
8 investigation into revenue recognition issues at the company. Immediately after learning this
9 material, nonpublic information, Jeong sold 40,000 shares of Silicon Image that same day. A
10 week later, after the close of the market on November 14, 2003, Silicon Image publicly
11 announced that it would not timely file its Form 10-Q for the third quarter of 2003, because the
12 audit committee had launched an internal investigation into revenue recognition issues associated
13 with certain licensing transactions in 2002 and 2003 (the “Announcement”). As a result of the
14 Announcement, the price of Silicon Image stock fell sharply the next trading day to close at
15 \$6.40 per share -- a 28% decline from the prior trading day’s closing price of \$8.85. By selling
16 his shares of Silicon Image in advance of the Announcement, Jeong avoided losses of \$56,000.
17

18 2. By virtue of his conduct, Defendant violated the antifraud provisions of the
19 Securities Exchange Act of 1934 (the “Exchange Act”) (Exchange Act Section 10(b) [15 U.S.C.
20 § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5]). Unless enjoined, the
21 Defendant is likely to commit such violations again in the future.
22

23 **JURISDICTION AND VENUE**

24 3. This Court has jurisdiction over this matter pursuant to Exchange Act Sections
25 21(d)(1), 21(e), 21A, and 27 [15 U.S.C. §§ 78u(d)(1), (e), 78u-1, and 78aa]. Venue is proper
26 because certain acts or transactions constituting the violations occurred within this judicial
27
28

1 district.

2 4. Defendant directly and indirectly, made use of the means and instrumentalities of
3 interstate commerce and the mails in connection with the conduct alleged herein.

4 **THE DEFENDANT**

5 5. Deog Kyoon Jeong, age 46, resides in Seoul, South Korea. During the relevant
6 time period, Jeong was a paid consultant to Silicon Image.

7 **RELEVANT ENTITY**

8
9 6. Silicon Image is a Delaware corporation headquartered in Sunnyvale,
10 California, that designs, develops, and markets semiconductor products. At all relevant
11 times, Silicon Image's common stock was registered with the Commission pursuant to
12 Exchange Act Section 12(g) [15 U.S.C. § 78k(g)], and is quoted on the NASDAQ National
13 Market.

14 **STATEMENT OF FACTS**

15
16 7. Jeong is a co-founder of Silicon Image and, since 1995, has been a paid consultant
17 to the company. Jeong's work primarily involves managing research and development of
18 semiconductor technology. Since Silicon Image's initial public offering in 1999, Jeong has
19 worked as a paid consultant pursuant to a written consulting agreement. That agreement
20 contains a confidentiality provision that requires Jeong to maintain information about the
21 company in strict confidence and to not disclose or use such information in any way, except
22 when performing services under his consulting agreement.

23
24 8. During the week of November 3, 2003, as a result of concerns raised by a senior
25 executive of Silicon Image, the audit committee of Silicon Image's board of directors launched
26 an internal investigation of revenue recognition issues associated with certain licensing
27 transactions in 2002 and 2003.
28

1 9. At the time the audit committee launched its investigation, Silicon Image's then
2 chairman of the board and CEO, who co-founded Silicon Image with Jeong, was on business
3 travel in Asia. On Wednesday, November 5, 2003, the audit committee informed the CEO of
4 the internal investigation by telephone. At the time of that call, the CEO was at Narita Airport
5 in Tokyo, Japan, waiting to board flight to Seoul, South Korea.

6 10. On Friday, November 7, 2003, while in Seoul, the CEO attended a dinner at
7 which Jeong was present. At or around the time of this dinner meeting, the CEO informed
8 Jeong that Silicon Image's audit committee had launched an internal investigation into revenue
9 recognition issues at the company. This information was material and (at the time) nonpublic.
10

11 11. While in possession of this material, nonpublic information concerning the audit
12 committee's investigation -- and in breach of his fiduciary duty to the company and its
13 shareholders -- after returning home from the dinner meeting that evening, Jeong e-mailed his
14 broker at approximately 11:30 p.m. and instructed him to sell 40,000 shares of Silicon Image
15 that day. Jeong's broker is located in Los Angeles, California. The time in Seoul, South Korea
16 is 14 hours ahead of U.S. Eastern Standard Time, so Jeong's broker was able to sell the shares
17 on November 7. Jeong's entire order was executed at an average price of \$7.80 per share, for a
18 total sales price of \$312,000.
19

20 12. On Friday, November 14, 2003, after the close of the market, Silicon Image
21 publicly announced that it would not timely file its Form 10-Q for the third quarter ended
22 September 30, 2003, because the company's audit committee was conducting an internal
23 examination of revenue recognition issues associated with certain licensing transactions in 2002
24 and 2003.
25

26 13. As a result of the Announcement, the next trading day, November 17, 2003, the
27 price of Silicon Image stock fell sharply and closed at \$6.40 per share -- a 28% decline from the
28

1 prior trading day's closing price of \$8.85. By selling 40,000 shares of Silicon Image in advance
2 of the Announcement, Jeong avoided losses of \$56,000.

3 **CLAIM FOR RELIEF**

4 **Insider Trading**

5 **Violations of Exchange Act Section 10(b)**
6 **and Exchange Act Rule 10b-5**

7 14. Paragraphs 1 through 13 are realleged and incorporated by reference.

8 15. Prior to Silicon Image's Announcement on November 14, 2003, the launch of an
9 internal investigation into revenue recognition issues by the audit committee of Silicon Image's
10 board of directors, was material and nonpublic information.

11 16. Defendant knew, or was reckless in not knowing, that this information was both
12 material and nonpublic.

13 17. On November 7, 2003, while in possession of material, nonpublic information
14 that Silicon Image's audit committee had launched an internal investigation into revenue
15 recognition issues at the company, Defendant, a company insider, sold shares of Silicon Image in
16 breach of his fiduciary duty to the company and its shareholders.

17 18. By reason of the foregoing, and in connection with the above-described sale of
18 Silicon Image stock, Defendant violated Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and
19 Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].
20
21

22 **PRAYER FOR RELIEF**

23 WHEREFORE, the Commission respectfully requests that this Court enter a judgment that:

- 24 (i) permanently enjoins Defendant from violating Exchange Act Section 10(b) [15
25 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5];
26 (ii) orders Defendant to disgorge, with prejudgment interest, all illicit profits realized
27 from the above-described trading in Silicon Image stock;
28

- 1 (iii) orders Defendant to pay a civil monetary penalty pursuant to Exchange Act
2 Section 21A [15 U.S.C. § 78u-1]; and
3 (iv) grants such other and further relief as the Court deems just and appropriate.
4

5 Dated: January , 2006

Respectfully submitted,

6 

7 Scott W. Friestad
8 Robert B. Kaplan
9 Brian O. Quinn
10 Mark E. Wolfe
11 Michelle Giard Draeger

Attorneys for Plaintiff
Securities and Exchange Commission

12 SEC Division of Enforcement
13 100 F. Street, NE
14 Washington, DC 20549-5561

15 Tel. (202) 551.4534 (Wolfe)
16 Fax (202) 772.9231 (Wolfe)

17 LOCAL COUNSEL
18 John B. Bulgozdy, Cal. Bar No. 219897
19 Securities and Exchange Commission
20 5670 Wilshire Boulevard, 11th Floor
21 Los Angeles, California 90036-3648
22 Telephone: (323) 965-3998
23
24
25
26
27
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