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10 UNITED STATES DISTRICT COURT  
11 NORTHERN DISTRICT OF CALIFORNIA  
12 SAN JOSE DIVISION

13 SECURITIES AND EXCHANGE COMMISSION, Case No.  
14 Plaintiff,  
15 v. **COMPLAINT**  
16 PETER C. CHANG,  
17 Defendant.

18  
19  
20  
21 Plaintiff Securities and Exchange Commission (the “Commission”) alleges:

22 **SUMMARY OF THE ACTION**

23 1. This case involves serial insider trading in the securities of Alliance Fiber Optic  
24 Products, Inc. (“AFOP”) by Defendant Peter C. Chang, who served as the company’s Chairman of  
25 the Board, its Chief Executive Officer, and President from its formation in 1995 until its acquisition  
26 in 2016 by Corning, Inc. (“Corning”).

27 2. In 2015 and 2016, Chang, by virtue of his leadership positions at AFOP, acquired  
28 material nonpublic information about AFOP’s earnings results and financial performance, as well as

1 the intended acquisition of AFOP by Corning, all of which were significant, market moving  
2 information. Chang was the largest holder of AFOP stock and was required to disclose his ownership  
3 of AFOP securities as an officer and director in accordance with the federal securities laws. But to  
4 capitalize on the highly sensitive information he learned about AFOP without detection, Chang  
5 secretly traded AFOP shares in two nominee accounts – one held in his wife’s name, and the other in  
6 his brother’s name – in advance of two public earnings announcements and the public acquisition  
7 announcement.

8 3. Chang also tipped highly sensitive, material and nonpublic information regarding  
9 AFOP to his brother in Taiwan, who traded AFOP shares in his own account, in close coordination  
10 with Chang’s trades ahead of the same announcements.

11 4. Chang’s insider trading scheme was brazen. For instance, Chang made several of his  
12 illicit trades in the nominee accounts while he was at work, from AFOP’s headquarters. In addition,  
13 Chang engaged in the scheme despite already standing to gain over \$30 million through the  
14 acquisition from AFOP stock and options that he legitimately obtained from AFOP. In total, Chang’s  
15 insider trading scheme generated more than \$2 million in illicit profits and losses avoided, with at  
16 least \$1.5 million for Chang’s nominee accounts, and more than \$600,000 for Chang’s brother’s  
17 account.

### 18 **JURISDICTION AND VENUE**

19 5. The Commission brings this action pursuant to Sections 21(d) and 21A of the  
20 Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d) and 78u-1.

21 6. This Court has jurisdiction over this action pursuant to Sections 21(d), 21A, and 27 of  
22 the Exchange Act, 15 U.S.C. §§ 78u(d), 78u-1 and 78aa.

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

26 8. Venue in this District is proper pursuant to Section 27 of the Exchange Act, 15 U.S.C.  
27 § 78aa, because a substantial part of the acts and transactions constituting the violations alleged in  
28 this Complaint occurred within the Northern District of California, and because Defendant Chang

1 resides or transacts business in the district.

2 **INTRADISTRICT ASSIGNMENT**

3 9. Under Civil Local Rule 3-2(e), this civil action should be assigned to the San Jose  
4 Division, because a substantial part of the events which give rise to the claims alleged herein  
5 occurred in Santa Clara County.

6 **DEFENDANT**

7 10. Peter C. Chang, also known as “Chi-Chyau Chang,” is 59 years old, is a U.S. citizen,  
8 and resides in Los Altos, California. In 1995, Chang founded AFOP. He served as the Chairman of  
9 the Board of Directors, CEO, and President from the company’s inception until its acquisition by  
10 Corning in 2016. As such, Chang was an officer and a director of AFOP, subject to certain reporting  
11 requirements under Section 16 of the Exchange Act. At all relevant times, Chang was AFOP’s  
12 largest shareholder and made over \$30 million through Corning’s acquisition from AFOP securities  
13 that he had received over the years as compensation from AFOP.

14 11. During the same timeframe, Chang and his wife jointly owned numerous accounts at  
15 various brokerages, including accounts held in the name of the “Chang Family LLC,” for which  
16 Chang and his wife were managing members. From at least 2015, Chang disclosed AFOP securities  
17 held on behalf of “Peter C. Chang,” the “Chang Family LLC,” the “Peter and Mary Chang  
18 Foundation,” and Chang’s two sons in accordance with the federal securities laws.

19 **OTHER RELEVANT ENTITIES AND INDIVIDUALS**

20 12. Alliance Fiber Optic Products, Inc. was, until June 2016, a Delaware corporation  
21 headquartered in Sunnyvale, California, which designed, manufactured, and sold high performance  
22 fiber optic components and integrated modules. Founded in 1995 by Chang, AFOP conducted its  
23 initial public offering of securities on or about November 21, 2000, and its common stock was  
24 registered with the Commission pursuant to Section 12(b) of the Exchange Act. AFOP announced its  
25 acquisition via tender by Corning on April 7, 2016, and its common stock traded on NASDAQ under  
26 the ticker symbol “AFOP” until June 6, 2016.

27 13. Corning, Inc. is a New York corporation headquartered in Corning, New York and  
28 develops, manufactures, and sells specialty glass, ceramics, and related materials. In 2015 and 2016,

1 Optical Communications was one of five reportable segments of Corning's business. Corning's  
2 common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and  
3 trades on NYSE under the ticker symbol "GLW."

4 14. Mary Chang, also known as "Mary C. Chen," "Mary Cheau-Shya Chen," "Cheau-  
5 Shya Chen," or "Cheau-Shya Chang," is 55 years old and is married to, and shares a residence with,  
6 Defendant Chang. Mary Chang is a U.S. citizen. Mary Chang shall hereinafter be referred to as  
7 "Chang's wife."

8 15. Daniel Chang, also known as "Chi-Tai Chang," is 64 years old, is Peter Chang's  
9 brother, and resides in Taiwan. In or about 2010, Daniel Chang opened a brokerage account at  
10 Scottrade Taiwan under the name "Chi-Tai Chang." The account opening documents describe Daniel  
11 Chang as a citizen of Taiwan and "retired." From 2011 through at least mid-2016, this account  
12 primarily traded AFOP common stock. Daniel Chang shall hereinafter be referred to as "Chang's  
13 brother."

## 14 FACTUAL ALLEGATIONS

### 15 **A. Chang Had Immediate Access to Highly Confidential Information about AFOP**

16 16. When AFOP became a public company in 2000, Chang, AFOP's founder, was  
17 announced as the company's CEO, President and the Chairman of its Board of Directors ("Board").

18 17. Through his leadership positions in management and on the Board, Chang continually  
19 acquired critical, nonpublic information about AFOP. In particular, Chang was privy to AFOP's  
20 confidential results of its earnings, and its expected earnings, well in advance of quarterly  
21 announcements that AFOP made to the public. In fact, Chang led quarterly discussions with analysts  
22 regarding AFOP's financial performance during investor earnings calls.

23 18. Chang also directed, and participated in, meetings of AFOP's Board. He participated  
24 in discussions regarding AFOP's earnings, and its financial position, as well as discussions regarding  
25 a proposed strategic transaction, and, significantly, negotiations with Corning leading up to Corning's  
26 acquisition of AFOP in April 2016.

### 27 **B. Chang's Duties to Maintain Confidentiality and to Report Trading in AFOP**

28 19. As an officer and director at AFOP, Chang was subject to several explicit restrictions

1 designed to limit his ability to trade AFOP shares, to disclose any such trading, and to keep  
2 confidential information regarding AFOP (including its potential acquisition by Corning). Among  
3 the specific restrictions AFOP imposed:

- 4 a. Insider trading policy: AFOP maintained an insider trading policy that prohibited all  
5 employees and/or their immediate family members from trading on the basis of  
6 material nonpublic information regarding AFOP, and required all AFOP trades to be  
7 pre-cleared by the CFO (or, in her absence, Chang). The policy specifically defined  
8 material nonpublic information to include (1) “[k]nowledge of actual, estimated or  
9 projected revenues, earnings or losses; and (2) [n]ews of a possible merger, acquisition  
10 or tender offer.”
- 11 b. Trading blackout periods: AFOP maintained a policy which stated that all members  
12 of the Board of Directors and officers were “subject to a stock trading blackout period  
13 beginning one month prior to the end of a fiscal quarter until two trading days after the  
14 earnings release for that quarter.” AFOP also imposed a trading blackout for all  
15 individuals, including Chang, who had knowledge of the proposed acquisition by  
16 Corning in advance of the public disclosure on April 7, 2016. Accordingly, AFOP  
17 imposed trading blackouts from August 31, 2015 through November 2, 2015,  
18 November 30, 2015 through February 23, 2016, and February 29, 2016 through May  
19 5, 2016.
- 20 c. Deal-related agreements: Chang signed, as CEO of AFOP, deal-related agreements  
21 that specifically obligated him to maintain the confidentiality of the proposed  
22 acquisition with Corning. For instance, on or about February 17, 2015, Chang signed  
23 a nondisclosure agreement on behalf of AFOP in connection with the proposed  
24 acquisition by Corning. This nondisclosure agreement required that any “proprietary  
25 or confidential information of the disclosing party” in connection with the potential  
26 transaction would be “maintained in confidence” by “the receiving party and its  
27 Representatives.” On or about January 17, 2016, Chang also signed an exclusivity  
28 agreement on behalf of AFOP with Corning that incorporated the confidentiality

1 provisions contained in the parties' February 17, 2015 confidentiality agreement.

- 2 d. Code of business conduct and ethics: AFOP's code of business conduct and ethics  
3 prohibited all officers, employees, and directors from trading on the basis of material  
4 nonpublic information regarding the company, or tipping others to enable them to  
5 profit on trading from such information.

6 20. Furthermore, as an officer and as a director of AFOP, Chang was subject to securities  
7 reporting requirements pursuant to Section 16 of the Exchange Act, requiring him to reveal the AFOP  
8 securities he held and any changes in his AFOP position. As the Chairman, President and CEO of  
9 AFOP, Chang was required to file statements reflecting his ownership, either on an annual basis  
10 ("Form 5") or to reflect changes in his beneficial ownership immediately upon such changes ("Form  
11 4"). During the relevant timeframe, Chang filed Forms 4 and a Form 5 to disclose his ownership of  
12 AFOP stock held on behalf of "Peter C. Chang," the "Chang Family LLC," the "Peter and Mary  
13 Chang Foundation," and Chang's two sons.

#### 14 **C. Chang Secretly Traded AFOP Securities on the Basis of Inside Information**

15 21. Contrary to the fiduciary duties he owed to AFOP and its shareholders, Chang  
16 repeatedly traded in AFOP securities on the basis of material and nonpublic, inside information he  
17 knew about AFOP's earnings and its impending acquisition by Corning without disclosing that to  
18 shareholders. Chang did so surreptitiously – in two brokerage accounts controlled by him, but  
19 nominally held by his wife and his brother. Indeed, Chang secretly and repeatedly traded AFOP  
20 shares in the nominee accounts from his AFOP work computer after attending Board meetings where  
21 confidential information about AFOP was discussed.

22 22. Chang also tipped his brother to trade AFOP shares on the basis of this same, material  
23 nonpublic information regarding AFOP. As a result, Chang's brother also traded AFOP shares in  
24 close coordination with Chang's trades. In total, Chang's insider trading scheme reaped more than \$2  
25 million in illicit profits and losses avoided.

#### 26 ***Chang Used Nominee Brokerage Accounts to Conceal His Insider Trading***

27 23. Chang used two nominee brokerage accounts (accounts that he controlled but were  
28 held in the names of his brother and wife) to conceal his AFOP insider trading. Chang opened his

1 first nominee brokerage account in 2002, just two years after AFOP's initial public offering of  
2 securities. The account was opened at T. Rowe Price under the name of his brother, "Daniel Chang"  
3 (hereinafter referred to as the "T. Rowe Price Nominee Account").

4 24. The account opening documents for the T. Rowe Price Nominee Account reflect  
5 Chang's control over the account. In particular, the account documents identified a P.O. Box address  
6 in Sunnyvale, California owned by Chang. The account documents also identified an email address  
7 that included the phrase "peterafopwin" as a part of the address. Further, the account documents  
8 identified a U.S. phone number with a 650 area code; at all relevant times, Chang was responsible for  
9 paying the bills for this phone number.

10 25. Chang provided the vast majority of the initial funding of the account from  
11 approximately 2002 through 2003, through several wire transfers totaling more than \$200,000 from  
12 foreign bank accounts that he held or controlled. Chang used these funds to amass a substantial  
13 position in AFOP shares in the T. Rowe Price Nominee Account, acquiring shares and building up a  
14 position of over 242,000 AFOP shares (not split adjusted) valued at approximately \$138,225 as of  
15 December 31, 2002. Chang did not disclose his AFOP shares in this account, despite his securities  
16 reporting requirements under the federal securities laws.

17 26. From 2003 through October 2015, Chang continuously funded the T. Rowe Price  
18 Nominee Account by making wire transfers or writing checks to the account – with each transaction  
19 worth tens of thousands of dollars – from an account Chang owned jointly with his wife. Chang also  
20 reaped profits from the account, as multiple checks were drawn from the account – often in amounts  
21 of approximately \$9,990 – and written to either Chang or his wife.

22 27. From 2003 through October 2015, Chang continuously bought and sold AFOP  
23 common shares and maintained a minimum position in AFOP common shares worth hundreds of  
24 thousands of dollars in the T. Rowe Price Nominee Account.

25 28. On or about February 3, 2011, a second nominee brokerage account that Chang  
26 controlled was opened at Scottrade Taiwan under the name of Chang's wife, "Cheau Shya Chen"  
27 (hereinafter referred to as the "Scottrade Nominee Account"). The account opening documents  
28 identified Chang's wife as a citizen of Taiwan. On or about February 22, 2011, a foreign bank

1 account held or controlled by Chang and his wife wired approximately \$230,000 in two transfers to  
2 the Scottrade Nominee Account, providing the initial funding for the account.

3       29. From 2011 through 2015, the Scottrade Nominee Account maintained a minimum  
4 position in AFOP common stock worth hundreds of thousands of dollars. Again, despite his  
5 reporting obligations under the federal securities laws, Chang did not disclose the AFOP shares held  
6 in this account on Forms 4 or 5. The only other securities traded in the account during this timeframe  
7 were shares of Corning (AFOP's ultimate acquirer).

8       30. During the relevant time period, Chang used the T. Rowe Price Nominee Account and  
9 Scottrade Nominee Account to trade AFOP on multiple occasions. Because Chang accessed both  
10 accounts electronically, at the time of Chang's activities in these accounts, the brokerage services of  
11 T. Rowe Price and Scottrade logged IP addresses that identified the unique number of the device on  
12 an electronic network that accessed the particular account. Accordingly, the IP logs for both nominee  
13 accounts reflect numerous logins into the respective accounts by Chang, and numerous orders by  
14 Chang for AFOP trades he placed, using devices located in AFOP's offices in Sunnyvale, California  
15 and in Chang's home in Los Altos, California, and from other locations Chang was visiting.

16                   ***Chang and His Brother Traded Ahead of AFOP Earnings and Acquisition***  
17                   ***Announcements***

18       31. Chang, through his leadership positions, acquired material nonpublic information  
19 regarding AFOP's earnings results and financial performance well ahead of public announcements, as  
20 well as the confidential discussions between AFOP and Corning regarding the acquisition of AFOP.  
21 In particular, in late 2014 and early 2015, Chang, as Chairman of the Board, CEO, and President,  
22 learned that a number of potential strategic acquirers, including Corning, had reached out to AFOP to  
23 discuss a potential business combination.

24       32. During the course of assessing AFOP's strategic options, Chang, in his capacity as  
25 CEO and President, signed a nondisclosure agreement on behalf of AFOP in connection with a  
26 proposed transaction with Corning on or about February 17, 2015. A few weeks later, on or about  
27 March 16, 2015, Chang, as Chairman of the Board, presided over an AFOP Board meeting, during  
28 which the Board approved the engagement of a financial advisor for a potential strategic transaction.

1 33. As merger discussions ensued for several months, Chang was also privy to AFOP's  
2 earnings results and financial performance before their public announcement. Chang used this inside  
3 information to sell AFOP shares quickly to avoid losses before two AFOP negative earnings  
4 announcements for Q3 2015 and Q4 2015. He also used the inside information to buy AFOP shares  
5 for a profit ahead of the public announcement of its acquisition by Corning on April 7, 2016.

6 34. Chang also tipped his brother to trade AFOP shares on the basis of the same, material  
7 nonpublic information. The brothers traded close in time with each other during 2015 and 2016 to  
8 place profitable orders to buy or sell AFOP common shares using the material nonpublic information  
9 Chang obtained as Chairman and CEO of AFOP.

10 35. As their trading reflects, Chang's brother's AFOP trades closely tracked Chang's  
11 AFOP trades in the nominee accounts in timing, size (typically in daily increments of 2,000-10,000  
12 shares), and direction (whether a purchase or a sale). Several of the brothers' trades were placed on  
13 the same day, at times within minutes of each other. In addition, from the time Chang's brother's  
14 account was opened on November 17, 2010 through April 2016, AFOP comprised the entire trading  
15 activity in Chang's brother's account, with the exception of holdings in certain exchange traded  
16 funds, as well as a smaller position in Apple that he purchased for a short time during the period.  
17 Chang tipped inside information regarding AFOP to his brother intending for his brother to trade and  
18 profit from the inside information; doing so was of value to Chang.

19 36. In total, Chang generated more than \$1.5 million in illicit profits or loss avoidance in  
20 the nominee accounts, while his brother realized an additional more than \$600,000 in illicit profits or  
21 loss avoidance in his own account. Specific examples and events surrounding these trades are  
22 alleged below.

23 ***The Brothers Trade Ahead of AFOP's Q3 2015 Earnings Announcement***

24 37. As merger discussions were ongoing, AFOP's fiscal quarter for Q3 2015 closed on  
25 September 30, 2015. By the end of the quarter, Chang knew that AFOP had suffered a steep decline  
26 in purchase orders from its largest customer and that its revenue would likely miss guidance.

27 38. As of September 30, 2015, each of the relevant accounts – i.e., the two nominee  
28 accounts controlled by Chang, and the third account controlled by his brother – held significant

1 amounts of AFOP common shares. In particular, Chang's T. Rowe Price Nominee Account held  
2 more than 140,000 AFOP shares (worth approximately \$2.4 million), Chang's Scottrade Nominee  
3 Account held 43,000 AFOP shares (worth approximately \$734,000), and his brother's account held  
4 more than 100,000 AFOP shares (worth approximately \$1.7 million). At this point, Chang was  
5 subject to AFOP's trading blackout for all officers and directors, which had begun one month prior to  
6 the end of the fiscal quarter (or August 31, 2015) and would last until two days after the earnings  
7 release for the quarter (or October 30, 2015).

8 39. Despite the duties Chang owed to AFOP and its shareholders, Chang began selling off  
9 AFOP shares in the nominee accounts, as well as tipping his brother to sell off his AFOP shares, in  
10 advance of the scheduled October 28, 2015 earnings announcement. During October 2015 prior to  
11 the public announcement, Chang sold the vast majority of the AFOP shares held in the nominee  
12 accounts (i.e., over 100,000 AFOP shares in the T. Rowe Price Nominee Account, and over 40,000  
13 AFOP shares in the Scottrade Nominee Account). During the same period, his brother's account sold  
14 approximately 13,000 of the approximately 100,000 AFOP shares in his separate account. The  
15 brothers succeeded in selling off their AFOP shares at an average price of approximately \$18.00 per  
16 share before the October 28 earnings announcement.

17 40. Significantly, several of the brothers' trades were closely coordinated on the same day,  
18 and even within hours of each other's trades. Indicative of the brothers' parallel trading:

- 19 a. On October 2, 2015, Chang's brother sold 1,000 AFOP shares at 6:19 a.m. PST (9:19  
20 p.m. Taiwan Time). Within two hours (7:56 a.m. PST), Chang sold 5,000 AFOP  
21 shares in the Scottrade Nominee Account while logged in from an AFOP IP address.
- 22 b. On October 19, 2015, Chang's brother's account sold 3,000 AFOP shares from 8:17  
23 a.m. until 8:30 a.m. PST (11:17 p.m. until 11:30 p.m. Taiwan Time). Approximately  
24 thirty minutes later (at 9:06 a.m. PST), Chang sold 2,000 AFOP shares from the  
25 Scottrade Nominee Account while logged in from an AFOP IP address.

26 41. After the close of the market on October 28, 2015, AFOP issued its earnings results  
27 for Q3 2015, with revenue and EPS below the company's previously-issued guidance and analyst  
28 research estimates. During the Q3 2015 earnings call also conducted on October 28, 2015, Chang

1 explained that the disappointing decline in revenue was attributable to a “steep drop in orders from  
2 our leading Web 2.0 customer, as they manage inventory and the cutbacks on order[s] during the  
3 quarter.”

4 42. By the close of business the next day, October 29, 2015, AFOP’s stock price had  
5 decreased by 23% from the prior day’s close, to \$13.80 per share. As a result of their sales of AFOP  
6 shares, Chang avoided losses totaling more than \$500,000 in the T. Rowe Price Nominee Account  
7 and in the Scottrade Nominee Account, while Chang’s brother avoided losses of more than \$50,000  
8 in his own account.

9 ***Chang Secretly Buys AFOP in the Nominee Accounts and Tips His Brother to Trade in***  
10 ***Anticipation of a Tender Offer, But Then the Brothers Sell Based on AFOP’s 2015 Year-***  
11 ***End Earnings Announcement***

12 43. In the period immediately following AFOP’s Q3 2015 earnings announcement, Chang  
13 learned of significant developments in Corning’s proposed acquisition of AFOP, causing Chang to  
14 respond by buying additional AFOP shares in the two nominee accounts.

15 44. For instance, on or about December 16, 2015, Chang received Corning’s cash offer to  
16 acquire AFOP in the range of \$17.25 to \$18.25 per share. Subsequently, on or about January 11,  
17 2016, Chang, who served as Chairman of the Board and Secretary, presided over a Board meeting in  
18 which the Board agreed to enter into an exclusivity agreement with Corning based on its revised  
19 indication of interest of \$20.50 per share (which represented a 33% premium over the prior day’s  
20 closing price). Two days later, on January 13, 2016, Chang signed AFOP’s exclusivity agreement  
21 with Corning and participated in discussions with Corning about the due diligence process, proposed  
22 transaction timeline, and key diligence items.

23 45. Based on this inside information, Chang purchased tens of thousands of AFOP shares  
24 in the nominee accounts, and also tipped his brother to purchase AFOP shares from December 2015  
25 through January 2016. By the end of January 2016, Chang’s T. Rowe Price Nominee Account held  
26 more than 260,000 AFOP shares (worth approximately \$3.8 million), Chang’s Scottrade Nominee  
27 Account held 55,000 AFOP shares (worth approximately \$790,000), and Chang’s brother’s account  
28 held more than 114,000 AFOP shares (worth approximately \$1.6 million).

46. However, as the companies exchanged draft merger agreements, Chang suddenly

1 learned that Corning was suspending the merger negotiations. On or around February 9, 2016,  
2 Corning informed AFOP that it needed to review AFOP's fourth quarter and year-end 2015 results  
3 before proceeding with any merger. As the final quarter had closed on December 31, 2015, Chang  
4 learned that the company's purchase orders from its leading customers were insufficient to offset  
5 seasonal declines in demand, and would likely miss the company's previously issued guidance. As  
6 Chang also knew, the exclusivity agreement between AFOP and Corning, which Chang had signed,  
7 was due to expire on February 15, 2016.

8         47. Accordingly, in the days before AFOP's scheduled year-end earnings announcement  
9 on February 19, 2016, Chang sold off AFOP shares in the nominee accounts, and tipped his brother  
10 to sell his AFOP shares as well, despite being subject to a trading blackout period. During the week  
11 preceding AFOP's public earnings announcement, Chang's T. Rowe Price Nominee Account sold  
12 78,000 AFOP shares, Chang's Scottrade Nominee Account sold 51,000 AFOP shares, and Chang's  
13 brother's account sold more than 50,000 AFOP shares. During this period, Chang and his brother  
14 placed incremental orders to sell their AFOP shares, with several of the trades occurring on the same  
15 days and in similar amounts. The brothers succeeded in selling these AFOP shares at an average  
16 price of approximately \$15 per share before the February 19 earnings announcement.

17         48. Overall, the brothers' sudden and simultaneous change from buying AFOP shares to  
18 selling them off within a matter of days reflects their close coordination. At times, the brothers'  
19 extremely closely coordinated trading followed within hours of Chang participating in important  
20 corporate events for AFOP, or Chang otherwise learning of critical information through his  
21 leadership roles at AFOP. As examples:

- 22             a. On February 15, 2016, the exclusivity agreement between AFOP and Corning, which  
23 Chang had signed, expired. The next morning, February 16, 2016, Chang's brother  
24 placed orders to sell approximately 23,000 AFOP shares at approximately 6:30 a.m.  
25 PST (9:30 p.m. Taiwan Time) (just over 20,000 shares executed by 6:40 a.m. PST).  
26 At the same time his brother was placing orders, at 6:31 a.m. PST, Chang logged onto  
27 the Scottrade Nominee Account from his home IP address and over the next few  
28 minutes placed an order to sell 3,000 AFOP shares. Shortly after, at 7:50 a.m. PST,

1 Chang sold 8,000 AFOP shares in the T. Rowe Price Nominee Account from an  
2 AFOP IP address, and between 8:47 a.m. and 8:55 a.m. PST, Chang sold another  
3 15,000 AFOP shares from the Scottrade Nominee Account, also from the AFOP IP  
4 address.

5 b. On February 17, 2016, Chang's brother sold 15,000 AFOP shares between 6:34 and  
6 7:06 a.m. PST (9:34 and 10:06 p.m. Taiwan Time). Within one hour, at  
7 approximately 7:51 a.m. PST, Chang sold 3,834 AFOP shares from the Scottrade  
8 Nominee Account while logged in from an AFOP IP address.

9 49. After the close of the market on February 18, 2016, AFOP publicly released its year-  
10 end 2015 and fourth quarter earnings, reporting revenue and EPS below the company's previously-  
11 issued guidance and below analysts' estimates. During AFOP's conference call to discuss its  
12 earnings, which also occurred on February 18, 2016, Chang explained that while the company had  
13 experienced "some recovery of the business from our leading customers ... it was not enough to  
14 offset seasonal decline in other areas."

15 50. By the close of the market the next day, February 19, 2016, AFOP's stock price had  
16 decreased 16% from the prior day's close, to \$12.03 per share. By selling their AFOP shares prior to  
17 these public announcements, Chang and his brother avoided significant losses, totaling more than  
18 \$300,000 in the T. Rowe Price Nominee Account and Scottrade Nominee Account, and more than  
19 \$100,000 in Chang's brother's account.

20 ***The Brothers Trade Ahead of the Announcement of AFOP's Acquisition***

21 51. Just as AFOP was making its public announcement of the 2015 year-end earnings,  
22 Chang gained information suggesting that Corning and AFOP were moving closer to a deal. In  
23 particular, from February 18, 2016 through March 8, 2016, Chang participated in, or was otherwise  
24 aware of, several conference calls between Corning and AFOP regarding due diligence matters.  
25 Also, on March 9, 10, and 12, 2016, Chang, as Chairman of the Board and Secretary, presided over  
26 Board meetings in which the Board discussed ongoing price negotiations with Corning. Ultimately,  
27 during the March 12, 2016 AFOP Board meeting, the Board approved Corning's latest offer to  
28 acquire AFOP via a tender offer priced at \$18.50 per share (which represented a 28% premium over

1 the prior day's closing price of \$13.32 per share), and the Board directed management to negotiate a  
2 definitive agreement.

3 52. Based on this inside information, Chang purchased AFOP shares in the nominee  
4 accounts before the public acquisition announcement. Chang also passed material nonpublic  
5 information regarding the tender offer to his brother, which he knew had been acquired directly from  
6 Corning and AFOP with the expectation that his brother would use the information to trade AFOP  
7 shares.

8 53. From February 19, 2016 until the close of market on April 7, 2016, Chang's T. Rowe  
9 Price Nominee Account purchased more than 85,000 AFOP shares, Chang's Scottrade Nominee  
10 Account purchased more than 55,000 AFOP shares, and the brother's account purchased more than  
11 70,000 AFOP shares. The brothers succeeded in purchasing these shares at an average price of  
12 approximately \$13.00 per share, when Chang already knew that the tender offer would likely be  
13 priced at \$18.50 per share.

14 54. As with the earlier trades, Chang and his brother placed incremental orders to buy  
15 AFOP shares, with several of the orders occurring on the same day and in similar amounts. The  
16 brothers' coordinated trading also coincided closely with significant events that Chang learned  
17 through his leadership roles at AFOP. For example:

18 a. As AFOP and Corning were conducting due diligence calls, on March 4, 2016,  
19 Chang's brother purchased 4,000 AFOP shares, placing orders at 6:31 a.m. and 6:34  
20 a.m. PST (9:31 p.m. and 9:34 p.m. Taiwan Time). Within hours, Chang logged into  
21 the Scottrade Nominee Account from an AFOP IP address and purchased 4,000 AFOP  
22 shares at 7:55 a.m. PST, and 5,000 AFOP shares at 8:34 a.m. PST. At 9:21 a.m. PST,  
23 Chang purchased another 5,000 shares for the Scottrade Nominee Account, and  
24 approximately twenty minutes later, at 9:42 a.m. PST, Chang purchased 5,000 AFOP  
25 shares in the T. Rowe Price Nominee Account, all while logged in from an AFOP IP  
26 address.

27 b. On March 9, 2016 at 10:30 a.m. PST, Chang presided over a telephonic AFOP Board  
28 meeting in which the Board directed management to respond to Corning's then-

1 proposed acquisition price of \$17.50 per share with a counteroffer of up to \$19.50 per  
2 share. Within forty-five minutes after the meeting, at approximately 11:16 a.m. PST,  
3 Chang bought 3,000 AFOP shares in the Scottrade Nominee Account and then at  
4 11:20 a.m. PST, another 5,000 AFOP shares in the T. Rowe Price Nominee Account,  
5 while logged into both accounts from an AFOP IP address.

6 c. The next day, on March 10, 2016, Chang's brother purchased 5,000 AFOP shares,  
7 placing three orders between 6:59 and 7:11 a.m. PST (9:59 and 10:11 p.m. Taiwan  
8 Time). Just over one hour later, at 8:19 a.m. PST, Chang purchased 5,000 AFOP  
9 shares in the T. Rowe Price Nominee Account, while logged in from an AFOP IP  
10 address.

11 55. At the time Chang and his brother purchased AFOP shares in advance of the tender  
12 offer, several substantial steps to commence the tender offer had taken place. For instance, Corning  
13 had delivered an indication of interest to acquire AFOP for approximately \$17.25 per share to \$18.50  
14 per share in cash on December 16, 2015; Corning engaged outside counsel on January 8, 2016;  
15 AFOP re-engaged its financial advisor on January 11, 2016; AFOP and Corning entered into an  
16 exclusivity agreement on January 13, 2016; and representatives from AFOP and Corning held a  
17 telephonic meeting to discuss due diligence and a proposed transaction timeline on January 13, 2016.

18 56. After the close of the market on April 7, 2016, AFOP issued a press release publicly  
19 announcing that it had agreed to be acquired by Corning in an all-cash tender offer for \$18.50 per  
20 share.

21 57. The next day, on April 8, 2016, Chang's brother successfully sold 40,000 shares of the  
22 more than 130,000 AFOP shares in his account, for a profit of approximately \$200,000.

23 58. On April 11, 2016, while Chang was traveling in Taiwan, both the T. Rowe Price  
24 Nominee Account and Chang's brother's Scottrade account were logged into, simultaneously, from  
25 the same Taiwan IP address. During this session, the T. Rowe Price Nominee Account sold its entire  
26 position of more than 270,000 AFOP shares for an actual profit of more than \$400,000. Within two  
27 days of liquidating the AFOP position in the T. Rowe Price Nominee Account, Chang and his brother  
28 participated in a series of calls with T. Rowe Price. First, Chang's brother called T. Rowe Price and

1 asked whether he could receive translation assistance from his “brother, Peter Chang.” Then,  
2 Chang’s brother called again and requested that Peter Chang be the contact on the account going  
3 forward.

4 59. On April 12, 2016, Chang sold 62,000 AFOP shares in the Scottrade Nominee  
5 Account for a profit of more than \$300,000.

6 60. On April 13, 2016, Chang’s brother sold his remaining AFOP shares for an additional  
7 profit of more than \$150,000.

#### 8 **D. Chang Acted with Scienter**

9 61. At the time of the trading described above, Chang knew, or was reckless in not  
10 knowing, that the information regarding AFOP’s acquisition and its earnings results and financial  
11 performance was material and confidential to AFOP.

12 62. At the time of the trading described above, Chang owed AFOP a fiduciary duty, or an  
13 obligation arising from a similar relationship of trust or confidence, to keep confidential material  
14 nonpublic information regarding AFOP’s acquisition, as well as its earnings results and financial  
15 performance. Chang knew or was reckless in not knowing that he owed AFOP a fiduciary duty, or an  
16 obligation arising from a similar relationship of trust or confidence, to keep this information  
17 confidential. In particular, Chang was aware of several restrictions prohibiting him from trading, or  
18 tipping others to trade, based on the confidential AFOP information, including but not limited to the  
19 company’s insider trading policy, trading blackout periods, and the deal-related agreements he signed  
20 with Corning.

21 63. At the time of the trading described above, Chang acted with deceptive intent. Among  
22 other things, Chang’s scheme involved concealing the AFOP shares in the nominee accounts, his  
23 control over the nominee accounts, and his relationship with his wife. Specific examples are detailed  
24 below.

#### 25 ***Chang’s Failure to Report AFOP Trades in the Nominee Accounts He Controlled***

26 64. As described above, Chang used the two brokerage accounts opened in the names of  
27 other persons to disguise his control over the trading in those accounts. However, Chang did not  
28 disclose the AFOP trades in the nominee accounts he controlled in accordance with certain securities

1 reporting requirements under the federal securities laws. In particular, as an officer and as a director  
2 of AFOP, Chang was required to publicly report the AFOP securities he held and any changes in his  
3 AFOP position within two business days following the transaction.

4 65. Indeed, Chang's disclosures reflected only the AFOP shares held on behalf of "Peter  
5 C. Chang," his family trust, family foundation, or his sons. For instance, on or around February 17,  
6 2015, Chang filed an Annual Statement of Changes in Beneficial Ownership with the Commission on  
7 SEC Form 5, in which he claimed to own AFOP securities as of December 31, 2014, totaling  
8 1,414,640; he claimed direct (versus indirect) ownership of these AFOP securities.

9 66. Chang made other representations about the AFOP securities he owned in the  
10 February 2015 Form 5, but he did not describe his true ownership position in AFOP shares. In  
11 particular, Chang did not disclose that as of December 31, 2014, he owned an additional 54,000  
12 AFOP shares in the account he controlled in his wife's name, nor that he owned an additional  
13 206,715 AFOP shares in the account he controlled in his brother's name.

14 67. In addition, during 2015 and 2016, Chang filed with the Commission three Statements  
15 of Changes in Beneficial Ownership on SEC Form 4, on or about April 8, 2015, August 31, 2015,  
16 and May 3, 2016. In the April 2015 Form 4, Chang described his acquisition of AFOP securities  
17 issued to him as restricted stock units, and his purported holdings of securities beneficially owned  
18 following that transaction (totaling 1,714,640); however, this figure omitted the AFOP shares Chang  
19 then held in the account in the name of his wife (totaling 43,000), and in the account in the name of  
20 his brother (totaling 141,442).

21 68. Similarly, Chang failed to include in the August 2015 Form 4 and the May 2016 Form  
22 4 the true amount of AFOP securities beneficially owned following the reported transactions, because  
23 he omitted the shares of AFOP he then held in the accounts in the name of his wife and his brother.

24 ***Chang's Concealment of His Control over the T. Rowe Price Nominee Account***

25 69. As part of the scheme, Chang also disguised his control over the T. Rowe Price  
26 Nominee Account in communications with T. Rowe Price regarding the account. On or about May 1,  
27 2015, Chang placed a phone call to T. Rowe Price. Chang was inquiring of the brokerage firm as to  
28 why a hold had been put on the account related to his AFOP position.

1           70.     During the May 1 phone call, the T. Rowe Price representative asked the caller what  
2 his name was, and Chang responded falsely: “Daniel Chang.” The T. Rowe Price representative  
3 explained that the hold had been placed on the account pending clarification as to whether the  
4 account owner, “Daniel Chang,” was related to “Peter C. Chang,” the “Chairman of AFOP.” The  
5 representative stated that if the account owner was related, T. Rowe Price would not be able to  
6 complete the request, as the clearing broker would prohibit it. With confirmation that they were not  
7 related, T. Rowe Price would complete his request.

8           71.     In response, Chang stated to the T. Rowe Price representative that a large percentage  
9 of Chinese people had the last name “Chang.” This response was evasive and misleading. The  
10 representative indicated his understanding that the account owner was not related to Peter Chang and  
11 informed Chang that a note would therefore be made to the account confirming that the account  
12 owner was not related to Peter Chang. Chang did not correct this misimpression.

13           72.     Despite Chang’s efforts to obfuscate his control of the account, T. Rowe Price later  
14 discovered that the account holder was at least related to Peter Chang. Thus, in late March 2016, T.  
15 Rowe Price sent a notification to the email account on record (a new email address that included  
16 “danielchangtwn” in the address) indicating that the account would need to be transferred out of T.  
17 Rowe Price’s brokerage services within 30 days. Within two weeks of this notification, on or about  
18 April 11, 2016, the shares remaining in the account, including AFOP common stock, were sold.

19           ***Chang’s Concealment of His Relationship with His Wife***

20           73.     Even after the sales of his AFOP shares and the completion of the Corning tender  
21 offer, Chang continued to conceal his control of the nominee accounts, going so far as to deny or  
22 obscure his relationship with his wife. For instance, on or about June 5, 2016, Financial Industry  
23 Regulatory Authority (“FINRA”) sent a letter to AFOP regarding trading in AFOP’s shares around  
24 the time of Corning’s acquisition announcement, through its Office of Fraud Detection and Market  
25 Intelligence. The FINRA letter requested that AFOP’s officers and directors review a list of the  
26 names of persons whose accounts had been identified by FINRA as having traded in AFOP, and to  
27 identify any past or present relationships the officers or directors had with the account holders.

28           74.     FINRA’s list identified the accounts held by Chang’s brother, “Chi-Tai Chang,” and

1 his wife, “Cheau-Shya Chen,” but did not identify the account nominally held by “Daniel Chang”  
2 (i.e., the T. Rowe Price Nominee Account). Although Chang identified “Chi-Tai Chang” as his  
3 brother, Chang did not identify his wife.

4 **FIRST CLAIM FOR RELIEF**

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

6 75. Paragraphs 1 through 74 are hereby re-alleged and are incorporated herein by  
7 reference.

8 76. Defendant Chang, with scienter, in connection with the purchase or sale of securities  
9 as set forth above, directly or indirectly:

- 10 a. employed devices, schemes, or artifices to defraud;
- 11 b. made untrue statements of material facts and omitted to state material facts necessary  
12 in order to make the statements made, in light of the circumstances under which they  
13 were made, not misleading; and
- 14 c. engaged in acts, practices, and courses of business which operated or would operate as  
15 a fraud or deceit upon other persons, including purchasers and sellers of securities;

16 by the use of the means or instrumentalities of interstate commerce, and of the mails, and the  
17 facilities of a national securities exchange.

18 77. By reason of the foregoing, Defendant Chang violated, and unless restrained and  
19 enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule  
20 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

21 **SECOND CLAIM FOR RELIEF**

22 **Violations of Section 14(e) of the Exchange Act and Rule 14e-3 Thereunder**

23 78. Paragraphs 1 through 74 are hereby re-alleged and are incorporated herein by  
24 reference.

25 79. By January 2016, a substantial step or steps had been taken to commence a tender  
26 offer of AFOP’s securities by Corning, as more fully set forth above. Defendant Chang thereafter  
27 purchased, or caused to be purchased, AFOP securities while in possession of material nonpublic  
28 information related to the tender offer. Defendant Chang knew or had reason to know the

1 information related to the tender offer was nonpublic and had been acquired directly or indirectly  
2 from AFOP or Corning, or from an officer, director, employee or another person acting on behalf of  
3 AFOP or Corning, before such information and its source were publicly disclosed.

4 80. Defendant Chang, in connection with a tender offer, directly or indirectly, made untrue  
5 statements of material facts and omitted to state material facts necessary in order to make the  
6 statements made, in the light of the circumstances under which they were made, not misleading.

7 81. By reason of the foregoing, Defendant violated, and unless restrained and enjoined  
8 will continue to violate, Section 14(e) of the Exchange Act, 15 U.S.C. § 78n(e), and Rule 14e-3  
9 thereunder, 17 C.F.R. § 240.14e-3.

10 **THIRD CLAIM FOR RELIEF**

11 **Violations of Section 16(a) of the Exchange Act and Rule 16a-3 Thereunder**

12 82. Paragraphs 1 through 74 are hereby re-alleged and are incorporated herein by  
13 reference.

14 83. Defendant Chang, by engaging in the conduct described above, and as a director and  
15 an officer of AFOP, failed to file within the required timeframe, the required statements of his  
16 beneficial ownership of AFOP securities and required statements of changes in beneficial ownership  
17 of AFOP securities, setting forth his purchases and sales of AFOP securities alleged above.

18 84. Defendant Chang, by engaging in the conduct described above, and as a director and  
19 an officer of AFOP, filed or caused to be filed with the Commission a statement of beneficial  
20 ownership on Form 5 and subsequent statements of beneficial ownership on Forms 4, as more fully  
21 set forth above, which were false and misleading in that they materially misstated Defendant Chang's  
22 beneficial ownership, or the changes in Chang's beneficial ownership, of AFOP securities.

23 85. By engaging in the conduct described above, Defendant Chang violated, and unless  
24 restrained and enjoined, will continue to violate, Section 16(a) of the Exchange Act, 15 U.S.C.  
25 §78p(a), and Rule 16a-3 thereunder, 17 C.F.R. §240.16a-3.

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27  
28

**PRAYER FOR RELIEF**

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

**I.**

Permanently restraining and enjoining Defendant Chang, his officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, from directly or indirectly violating Sections 10(b), 14(e) and 16(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78n(e), and 78p(a), and Rules 10b-5, 14e-3, and 16a-3 thereunder, 17 C.F.R. §§ 240.10b-5, 240.14e-3, and 240.16a-3.

**II.**

Ordering Defendant Chang to disgorge, with prejudgment interest, all illicit trading profits, losses avoided, or other ill-gotten gains received by him, directly or indirectly, as a result of the conduct alleged herein.

**III.**

Prohibiting Defendant Chang from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

**IV.**

Ordering Defendant Chang to pay civil penalties pursuant to Section 21A of the Exchange Act, 15 U.S.C. § 78u-1, and pursuant to Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

**V.**

Granting such other relief as this Court may deem just and appropriate.

Dated: September 20, 2017

Respectfully submitted,

/s/ Serafima Krikunova  
SERAFIMA KRIKUNOVA  
Attorney for Plaintiff  
SECURITIES AND EXCHANGE  
COMMISSION