

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES SECURITIES AND EXCHANGE
COMMISSION,

PLAINTIFF,

v.

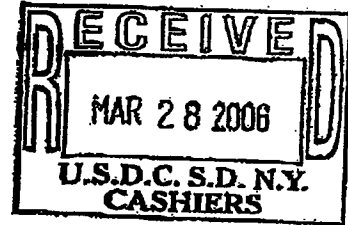
ALEXANDER J. YAROSHINSKY,

DEFENDANT.

JUDGE CASEY

06 CV 2401

Case No.



COMPLAINT

For its complaint against Alexander J. Yaroshinsky, Plaintiff the United States Securities and Exchange Commission ("Commission") alleges as follows:

SUMMARY

1. This is an insider trading case involving transactions in the securities of Connetics Corp. ("Connetics", or the "Company") by Alexander J. Yaroshinsky ("Yaroshinsky"), the Vice President of Biostatistics and Clinical Operations for Connetics. Yaroshinsky's trading was conducted in advance of a June 13, 2005 public announcement (the "Announcement") by Connetics stating that it had received a "not approvable" letter from the Food and Drug Administration ("FDA") concerning Velac Gel, a developmental stage acne medication that the Company was projecting would contribute significantly to its near-term and long-term financial performance. After the announcement, Connetics common stock fell 27% from the previous day's close on volume of more than 30 times its 30-day average.

2. On April 13, 2005, two months before the Announcement, Yaroshinsky, in his capacity as Connetics' Vice President of Biostatistics and Clinical Operations

participated on a telephone call with FDA officials, during which he learned of the FDA's view with respect to the results of the carcinogenicity studies of Velac Gel.

3. From April 26 through June 10, 2005, Yaroshinsky purchased 51 put contracts and sold 15,100 shares of Connetics common stock in his own account and purchased 2,025 Connetics put contracts in a nominee account he controlled.

4. As a result of his unlawful conduct, Yaroshinsky benefited financially by more than \$680,000.

5. By virtue of his conduct, Yaroshinsky violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder, and unless enjoined, he will continue to engage in transactions, acts, practices, and courses of business similar to those alleged in this Complaint.

JURISDICTION AND VENUE

6. The Commission brings this action pursuant to authority conferred by Section 21(d) of the Exchange Act [15 U.S.C. §78u(d)] seeking permanently to enjoin Yaroshinsky from engaging in the wrongful conduct alleged in this Complaint and seeking a temporary restraining order, an asset freeze, and other relief. The Commission also seeks a final judgment ordering Yaroshinsky to pay disgorgement, civil money penalties and other relief pursuant to Sections 21(d) and 21A of the Exchange Act [15 U.S.C. §78u(d) and 78u-1].

7. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(d), 77u(e) and 78aa]. Yaroshinsky, directly or indirectly, singly or in concert, has made use of the means or instrumentalities of transportation or communication in, or the instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

8. Venue lies in this district pursuant to Section 27 of the Exchange Act [15 U.S.C. §78aa]. Certain of the transactions, acts, practices, and courses of business constituting the violations alleged herein occurred within the City of New York.

DEFENDANT

9. Defendant Alexander J. Yaroshinsky, age 52, is a resident of Mountain View, California. During the relevant period, Yaroshinsky was Connetics' Vice President of Biostatistics and Clinical Operations.

RELATED ENTITY

10. Connetics is a Palo Alto, California-based marketer and developer of dermatological products. Connetics common stock is traded on the Nasdaq National Market System. Connetics options are traded on the American Stock Exchange, as well as other exchanges.

FACTUAL ALLEGATIONS

11. During the relevant period, Yaroshinsky's duties and responsibilities as a Connetics' Vice President of Biostatistics and Clinical Operations included designing drug development studies, conducting the studies, analyzing the results and ultimately generating reports to the FDA for use in drug applications. In order to carry out his duties, Yaroshinsky was entrusted with, and had ready access to, non-public information concerning the approval process of Connetics' developmental stage drugs.

12. At all times during his employment with Connetics, Yaroshinsky was subject to Connetics' written code of professional conduct for employees, which explicitly prohibits employees from buying or selling Connetics securities while having knowledge of material non-public information and from disclosing such information to others. The code of conduct specifically defines material information to include "negative views about a new or existing product" and "expected government actions" which include FDA actions on pending drug approvals.

13. Throughout 2004 Connetics touted Velac Gel as potentially its biggest selling product. By the end of 2004 Connetics had reported that it spent in excess of \$15 million in licensing fees, milestone payments, and development costs related to Velac Gel. In 2004 and early 2005, Connetics was projecting publicly that it expected Velac Gel to launch during the fourth quarter of 2005, and the Company and analysts who followed Connetics projected publicly that a launch of Velac Gel would contribute significantly to Connetics' 2005 and 2006 revenues.

14. Before Velac Gel could be sold in the U.S., however, Connetics had to obtain approval from the FDA. As part of the approval process, the FDA required Connetics to perform a mouse study on Velac Gel to ascertain the incidence of the formation of cancerous tumors on mice. Consistent with his responsibilities at Connetics, Yaroshinsky played a role in the development and testing of Velac Gel.

15. On April 13, 2005, the FDA and Connetics conducted a telephone conference call. During this telephone conference call, the FDA relayed its preliminary reactions to the results of the mouse study. Yaroshinsky was present on the telephone conference call with the FDA.

16. Within two weeks of the April 13, 2005 call in which the FDA informed Connetics of the FDA's views with respect to the carcinogenicity studies of Velac Gel, in his own account, Yaroshinsky began liquidating his long position in Connetics securities, which he had accumulated over the prior four years. In addition, Yaroshinsky also began purchasing Connetics put contracts in both his account and the nominee account he controlled.

17. In total, during the period from April 26 through June 10, 2005, Yaroshinsky purchased 2,076 Connetics put contracts and sold long 15,100 shares in his account and the nominee account he controlled.

18. After the close of the market on Friday June 10, 2005, Connetics received from the FDA a formal "not approvable" letter for Velac Gel. The FDA's letter stated that the drug "was unsafe for use." On Monday, June 13, 2005, before the opening of the

market, Connetics issued a press release and Current Report on Form 8-K disclosing to the public that the FDA had not approved Velac Gel. The press release stated that the "only issue raised" in the FDA letter was the result of the mouse study. The release further stated that "as a result of today's announcement Connetics now projects 2005 total revenues to be \$182 million to \$188 million, down from previous guidance of \$195 million to \$206 million." In the same press release, Connetics adjusted down its 2005 earnings per share forecast, which the Company had previously projected would be between \$0.88 and \$0.92 per share. Connetics changed this projection to between \$0.66 and \$0.70 per share. Shortly after this announcement, analysts adjusted down their financial projections for Connetics in a similar fashion.

19. By the close of the market on Monday, June 13, 2005, Connetics' share price had fallen 27% from Friday's close of \$20.77 to \$15.13 on volume of 15,448,594 shares traded, 30 times its 30-day average volume. This closing price was a significant departure from the range in which shares of Connetics traded during the previous two months, which was between a high of \$29.48 and a low of \$19.07.

20. During the following five weeks, Yaroshinsky closed out over 2,000 of his options positions. As a result of these transactions, as well as his long sales preceding the June 13 announcement, Yaroshinsky benefited financially by more than \$680,000.

CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5]

21. Paragraphs 1 through 20 are re-alleged and incorporated herein by reference.

22. Defendant Yaroshinsky learned material, non-public information concerning the status of Velac Gel in the course of his employment at Connetics. He further knew or recklessly disregarded the fact that he owed Connetics a fiduciary duty to maintain such information in confidence until it was publicly disseminated.

23. In violation of his fiduciary duty to Connetics, Defendant Yaroshinsky used such material, non-public information, for his own financial benefit, to trade in the securities of Connetics prior to the Company's June 13, 2005 announcement that the FDA had not approved Velac Gel.

24. By the conduct described above, Yaroshinsky directly or indirectly, violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF


WHEREFORE, Plaintiff the Securities and Exchange Commission, respectfully requests that this Court:

(a) enter a judgment permanently restraining and enjoining Yaroshinsky, and his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from future 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] thereunder;

(b) enter a temporary restraining order and an asset freeze against Yaroshinsky;

(c) order Yaroshinsky to pay an amount equal to all moneys obtained through the illegal activities described above plus prejudgment interest thereon, and to pay civil penalties pursuant to Section 21A of the Exchange Act [15 U.S.C. §78u-1];

- (d) order expedited discovery and enter an order preventing the destruction or alteration of documents against Yaroshinsky; and
- (e) grant such other relief as this Court deems just and proper.

By: 
Alan M. Lieberman (AL-6517)
Telephone: (202) 551-4474
Fax: (202) 772-9245
liebermana@sec.gov
U.S. Securities and Exchange Commission
100 F Street, N.E.,
Washington, DC 20549-4030

Of Counsel:

Peter H. Bresnan, Deputy Director
John Reed Stark, Chief,
Office of Internet Enforcement
Thomas A. Sporkin, Deputy Chief
Office of Internet Enforcement
Carolyn-Gail Gilheany
Kara-Lee Taibel

March 28, 2006